

# 2

## The External Marketing Environment



REUTERS/Dado Ruvic

### LEARNING OBJECTIVES

- L01** Identify the external forces that influence marketing. (pp. 29–30)
- L02** Explain the impact of the economy and various market structures on marketing practices. (pp. 30–33)
- L03** Describe the way various competitive forces influence marketing strategy development. (pp. 33–38)
- L04** Discuss how social, environmental, and demographic forces shape marketing strategies now and in the future. (pp. 38–46)
- L05** Identify and explain the effect technological trends and developments have on current and future marketing practices. (pp. 46–50)
- L06** Distinguish the role that laws, regulations, and self-regulation play in the practise of marketing in Canada. (pp. 50–52)

## GOOGLE...

is the most visited site on the Web. While Google's core offering remains its search engine, the company has been expanding into services ranging from email and document storage to productivity software and mobile phone operating systems. Google has also acquired other Internet companies, from blogging services to the video-sharing site, YouTube. By paying close attention to trends and capitalizing on opportunities, Google has evolved from a two-man enterprise to a multibillion-dollar corporation in less than a decade.

Given that Google's main source of revenue is from advertising, the company has always been looking for ways to gain insight into our lives. The better Google knows us, the more efficient it can be in sending us relevant marketing messages. Google's recent purchase of Nest, a manufacturer of Internet connected devices including smart home thermostats, is one more way for Google to extend its reach into our homes.

Google knows that consumers are very interested in these new smart gadgets that connect to the Internet and adapt to our lifestyle preferences. This trend sees the world becoming a place where everything around us is connected and smart—from laptops and mobile phones to refrigerators and even crockpots! Imagine being at your college campus on your way to class and being able to use your smartphone to turn on your crockpot so that you'll have a tasty warm dinner waiting for you when you get home. Picture your refrigerator making a shopping list for you—letting you know what's in the fridge and suggesting recipes based on your dietary requirements.

We're in the early stages yet, but in the near future you may even have a toothbrush that's able to sense a cavity and book a dental appointment for you! This interconnected world will change what we buy, how we buy it, and how we interact with one another—and Google plans to be a leader in this new marketplace.

But these innovations also bring privacy concerns. Just before Google bought Nest, Google was found in violation of Canada's privacy laws. And its move to get a foothold in the smart gadget market caused an outcry in the tech world. People and organizations will need to adapt to keep themselves and their data safe. Regulators will need to ensure privacy laws and regulations are up to date. Environmental lobbyists have also expressed concern over the impact technological changes have on our ecosystems.

The world around us is changing, and marketers need to pay attention and adapt. In this chapter we'll examine a variety of trends in the external environment and take a look at how these trends are influencing marketing practices.<sup>1</sup>

## EXTERNAL FORCES THAT IMPACT MARKETING

**L01** Identify the external forces that influence marketing.

The environment in which marketing operates is constantly changing. Problems, opportunities, successes, and failures are largely dependent on an organization's ability to adapt to changing conditions. In this regard, a business must anticipate change and how it will affect its operations. To be successful, new strategies must evolve. To foresee and adjust to change, a company reviews and analyzes certain external forces that influence the nature of its marketing strategies. Trends that occur among consumers and in the economy, competition, technology, and laws and other regulations must be considered when developing a marketing strategy. Each of these external forces is examined in detail in this chapter.

**Figure 2.1** highlights a few trends that marketers should be paying attention to. This partial list of trends shows the breadth of an environmental scan—from the increasing intensity of global competition, to the emphasis on corporate social responsibility, to the expanding use of new technologies.

Individually or collectively, these trends (or forces) could have an impact on a company. Google's business situation in early 2014 was described in the opening of this

**Figure 2.1** Trends  
in the Canadian  
Marketplace

Environmental Force (C.R.E.S.T.)	Trends Revealed by an Environmental Scan
Competition	<ul style="list-style-type: none"> <li>• Price competition is intense as big US retailers continue to enter the Canadian marketplace.</li> <li>• Mergers and acquisitions are occurring to create scale and improve competitiveness.</li> </ul>
Regulations & Laws	<ul style="list-style-type: none"> <li>• There's an increased emphasis on free trade.</li> <li>• Regulators are introducing new legislation related to consumer privacy, intellectual property protection, and copyright.</li> </ul>
Economy	<ul style="list-style-type: none"> <li>• Canada's rate of economic growth is much lower than before the 2009 global recession.</li> <li>• Electronic commerce continues to grow.</li> <li>• There is concern about the high levels of personal and household debt.</li> </ul>
Social, Environmental & Demographic	<ul style="list-style-type: none"> <li>• Canadian society is more demanding of Canadian business practices and tends to reward those organizations that act in a socially responsible manner.</li> <li>• The population of Canada is more ethnically diverse than it used to be.</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• Technological innovations are changing the way we communicate with each other and the way companies communicate with customers.</li> <li>• There has been a dramatic growth in open source or free software.</li> <li>• The "Internet of Everything" is connecting all aspects of our lives.</li> </ul>

chapter. Google gives careful consideration to all of these trends when devising its corporate and marketing strategies.

## ECONOMIC FORCES

**L02** Explain the impact of the economy and various market structures on marketing practices.

The economy has a significant impact on an organization's marketing activity. The federal government, through Statistics Canada, is continuously collecting and analyzing information that determines the relative health of the country's economy. Canada's economic situation is measured by such variables as the gross domestic product, imports and exports, retail sales, unemployment, interest rates, and the value of the Canadian dollar. An analysis of trends in these variables determines if the economy is in good or bad shape. How these variables interact with one another will influence how conservative or how aggressive an organization's marketing efforts will be.

**Gross domestic product (GDP)** refers to the total value of goods and services produced in a country on an annual basis. Positive growth in a year would reflect a productive economy and plentiful jobs. In terms of goods and services produced, Canada's economy is 30 percent goods and 70 percent services.<sup>2</sup> The rate of growth in Canada is often compared to that of other countries (particularly the United States), which offers an international perspective on how well our economy is doing.

Canada's economy has been recovering slowly since the 2008–2009 economic recession that affected not only Canada but also other countries around the world. After experiencing minimal gains in 2012 and 2013, Canada's real GDP growth is expected to improve over the next few years, with growth between 2 and 3 percent annually.<sup>3</sup>

**gross domestic product (GDP)** The total value of goods and services produced in a country on an annual basis.

Increased demand for Canadian goods and services at home and abroad, as well as low interest rates, improving consumer and business confidence, and a falling Canadian dollar, are key factors contributing to the economy's recovery.

The economic downturn had a more significant impact on the U.S. economy. Real growth in GDP has continued to be sluggish in recent years, averaging 2 percent in 2013. Important factors affecting the U.S. economy include a high debt load, lower government spending, political infighting, and an increase in long-term interest rates. The U.S. economic outlook, however, is fairly positive, with growth forecast to be about 3 percent in 2014. Even stronger gains are anticipated for 2015.<sup>4</sup>

Canada's international trade balance, determined by the amount of imports and exports each year, is another indicator of the economy's health. The objective is to have a positive trade balance where exports exceed imports. For years Canada enjoyed such a position. Climbing out of a recession, however, has affected Canada's trade balance of payments negatively. In 2009, 2010, and 2012 Canada's exports fell, and the country experienced a trade deficit. Canada's largest trading partner is the United States, a market that accounts for 73.2 percent of all exports and 62.5 percent of all imports.<sup>5</sup> Clearly, the state of economic affairs in the United States and other countries with which we trade affects the operational health and welfare of Canadian companies. Looking ahead, a healthier U.S. economy, as well as the recent free trade agreement between Canada and Europe (CETA), should help drive demand for Canadian goods and, as a result, boost exports.<sup>6 & 7</sup>

Refer to **Figure 2.2** for a summary of some economic indicators that influence marketing strategy in Canada.

The *value of the Canadian dollar* has a direct impact on the activities of Canadian organizations that export their products. When, for example, the Canadian dollar is worth less than the U.S. dollar, the demand for Canadian-produced goods in the United States rises as our goods can be priced below U.S.-produced goods. Conversely, if the Canadian dollar is higher in value than the U.S. dollar demand for our goods decreases. The fact that the Canadian dollar is historically worth less

Indicator	2009	2010	2011	2012
Exports (\$ billion) <sup>1</sup>	367.2	404.0	456.8	462.5
Imports (\$ billion) <sup>1</sup>	373.9	413.7	456.0	474.5
Trade Balance (exports minus imports)	-6.7	-9.7	0.8	-1.2
GDP (annual growth rate; percent) <sup>2</sup>	-3.0	+3.5	+2.7	+1.8
Interest (annual average; percent) <sup>3</sup>	0.65	0.85	1.25	1.25
Unemployment rate (average percent) <sup>4</sup>	8.3	8.0	7.5	7.3

Sources:

<sup>1</sup>Statistics Canada CANSIM Table 228 – 0058 Balance of Payments, Total of all merchandise <http://www.statcan.gc.ca>

<sup>2</sup>Statistics Canada CANSIM Table 379–0031 GDP All industries [www.statcan.gc.ca](http://www.statcan.gc.ca)

<sup>3</sup>Bank of Canada Bank Rates, [www.bankofcanada.ca](http://www.bankofcanada.ca)

<sup>4</sup>Statistics Canada CANSIM Table 109-5324 [www.statcan.gc.ca](http://www.statcan.gc.ca)

**Figure 2.2**  
A Selection of Economic  
Indicators—Canada



than the U.S. dollar contributes to Canada's positive trade balance with the United States.

The rise of the Canadian dollar to par or near par with the U.S. dollar, as we saw between 2010 and 2012, typically has a negative impact on trade with the United States. Since 2013, however the Canadian dollar has begun to depreciate in value and is expected to settle at around \$0.90 U.S.<sup>8</sup> This situation should have a positive impact on demand for Canadian-made goods in the United States and boost industries such as tourism in Canada. In addition, higher demand for finished goods and goods used in production processes could contribute to much needed job creation in the manufacturing sector in Canada.<sup>9 & 10</sup>

The *level of employment or unemployment* from year to year also varies. A high level of employment reflects a vibrant economy, and vice versa. By the end of 2013, Canada's unemployment rate leveled off at 7.2 percent, down from a high of 8.1 percent in 2010. Despite a gradual decrease in the overall unemployment rate, employment gains in recent years show the slowest year-over-year growth rate since 2009, at just 0.6 percent in 2013. Furthermore, the unemployment rate among young people aged 15 to 24 years remains high at 14 percent as of December 2013.<sup>11</sup> Slower economic growth in Canada may make it difficult to return to pre-recession employment rates. On the bright side, though, healthier global economic growth is expected to stimulate Canada's export industries and positively impact employment numbers in 2014 and beyond. The health care and social assistance sector will also continue to drive employment growth due to growing demand from an aging population for health care services.<sup>12 & 13</sup>

*How much consumers spend* in retail stores is another indicator of an economy's health. Consumer spending directly influences demand for goods and services, and influences production and manufacturing decisions among source companies. Retail sales have taken a hit following the 2009 recession, but are showing gradual improvement as the job market strengthens and consumers' disposable incomes increase. The most recent statistic from 2011 indicates 4.2 percent annual growth in retail sales.<sup>14</sup> Going forward, price competition among the big retailers like Walmart, Sobeys, and newly arrived Target, as well as a strengthening economy, should continue to encourage value-conscious consumers to spend.

*Interest rates* (the cost of borrowing money) are another factor influencing the economy. The Bank of Canada sets an interest rate based on how it interprets the health of the economy. For example, if rapid economic growth is anticipated, and the corresponding possibility of inflation, the bank may increase the rate to cool the economy down a bit.

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

**Inflation** refers to a generally rising price level for goods and services, resulting in reduced purchasing power. In Canada, inflation has been running at around 1 percent annually in recent years and is expected to remain at this level through to 2016. This historically low level of inflation will likely mean interest rates will stay low, as well.<sup>15</sup> A lower bank rate helps boost the economy as it less expensive for businesses and consumers to borrow money. However, cheap lending rates offered by chartered banks (BMO, RBC, CIBC and others) encourage consumers to spend on credit. The Bank of Canada's concern now is for the amount of personal and household debt Canadians carry—a delicate balancing act!

The relationship between the economic variables described in this section is dynamic. It is wise for business organizations to stay abreast of economic trends and adjust their business strategies, including marketing, accordingly. Dollarama, for example, Canada's largest operator of dollar stores with 847 locations across the country, continues to expand, saying it has been benefiting from consumers' concern about household debt and the weak economy. The company's low price strategy is very timely and Dollarama saw profits jump 20 percent in the third quarter of 2013 as a result.<sup>16</sup>

More people are turning to reselling sites like UsedEveryWhere.com, a network of 90 hyper-local free classified sites in Canada, the United States, and the United Kingdom, not just as way to make and save money, but because they offer more choice than is found in a typical mall. "UsedEveryWhere has positioned itself well by catering to consumers looking for great deals and innovative ways to save money on essentials so they can pay off debt. Traffic on our site is continuing to grow," says Director of Marketing Lacey Sheardown.

Lululemon has taken a more cautious approach with its marketing in recent years. According to former CEO Christine Day, "It's easy to make decisions and to be

good when everything is going well. It's far harder to protect the brand and live your values when the going gets tough."<sup>17</sup> Consequently, Lululemon, a very successful retailer, has reined in the pace of new store growth. Instead of adding locations, which was the original objective, the new objective has become to encourage consumers to visit existing stores more often by introducing new products with an edge and by offering special incentives, such as more free yoga classes and invitation-only shopping nights—two proven tactics that make customers feel good about this organization.

## COMPETITIVE FORCES

**L03** Describe the way various competitive forces influence marketing strategy development.

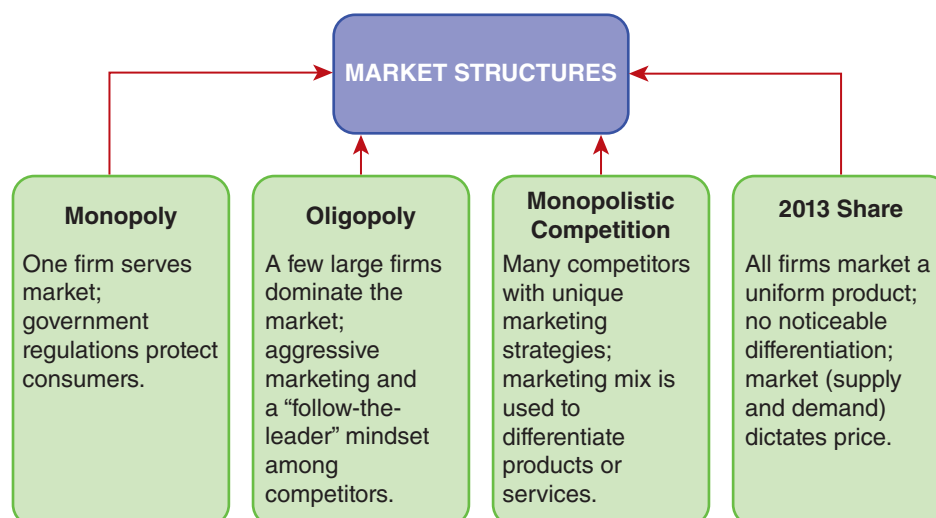
The activity of competitors is probably the most thoroughly studied aspect of marketing practice, as competitors are constantly striving to find new and better ways of appealing to similar target markets. The competitive environment that an organization operates in must be defined and analyzed, and the strategies of direct and indirect competitors must be monitored and evaluated.

### Market Structures

In Canada, a business operates in one of four different types of market structure: monopoly, oligopoly, monopolistic competition, and pure competition. Each market structure is unique and has a different impact on marketing strategy. **Figure 2.3** offers a summary of each market.

In a **monopoly**, one firm serves the entire market (there are no close substitutes) and therefore theoretically it controls most of the marketing mix elements: product, price, distribution, and marketing communications. In Canada, government regulates monopolies so market control is limited. Examples of monopolistic but regulated markets include cable television within geographic areas, electricity, and water. Since consumers do not have a choice in matters such as these, governments at all levels must regulate price and service availability, ensuring that customers are treated fairly. Canadian Blood Services (CBS), a not-for-profit organization responsible for managing the supply of blood and blood products in all provinces and territories except Quebec, is an example of a monopoly as there is no other blood service provider from whom blood products can be acquired. CBS performs a number of vital functions, such as collecting about one million units of blood each

**monopoly** A market in which there is a single seller of a particular good or service for which there are no close substitutes.



**Figure 2.3** Market Structures in Canada

**oligopoly** A market situation in which a few large firms control the market.

**monopolistic competition** A market in which there are many competitors, each offering a unique marketing mix based on price and other variables.

**pure competition** A market in which many small firms market similar products.

**direct competition** Competition from alternative products and services.

year from over 430 000 active blood donors and serving every hospital from coast to coast.

In an **oligopoly**, a few large firms dominate the market. In the telecommunications industry, for example, three firms control the Canadian market: BCE, Rogers, and Telus. In the video game console category, Microsoft, Sony, and Nintendo dominate. In both industries it is very difficult for others to enter the market and be successful, unless they are satisfied with a very small piece of the action. New competitors typically do not have the marketing budgets to compete in terms of advertising and promotion.

In an oligopoly, firms generally compete on the basis of product differentiation and brand image. In an oligopolistic market a “follow the leader” mindset prevails. When one company does something—say, increases its prices—the other company quickly follows. When such responses are so fast and predictable, it’s difficult to get an edge on your competitor.

In a market characterized by **monopolistic competition**, there are many firms, large and small, each offering a unique marketing mix. Marketers use any of the mix elements to differentiate the product or service from competitors. Products are clearly distinguished by brand names. In effect, each competitor is striving to build its market share, but due to the presence of strong competition there are always substitute products for consumers to turn to. Most Canadian industries are best described as oligopolies or as monopolistically competitive.

In the restaurant market, for example, the quick-serve segment can be subdivided among hamburger chains, fresh food chains, and coffee shops, but they all compete with one another when consumers are making meal choices. Well-known brands such as McDonald’s, Harvey’s, A&W, Burger King, Dairy Queen, Subway, KFC, and Tim Hortons give consumers a wide variety to choose from.

Both McDonald’s and Tim Hortons are dominant market leaders due to the success of their respective marketing programs. Both companies offer products that their customers want at prices they are willing to pay, they outspend competitors on advertising and promotions, they are socially responsible, and they have locations virtually everywhere. The other brands do the best they can to compete using their available financial resources.

The automobile market is another market that is monopolistically competitive. Consumers choose from an array of makes and models produced and marketed by companies such as Toyota, General Motors, Ford, Honda, Nissan, Mazda, Mercedes-Benz, BMW, and many more. All these companies invest heavily in marketing to entice prospective customers in their direction.

In a market where **pure competition** exists, all firms market a uniform product—no single buyer or seller has much effect on the price. There are many buyers and sellers. In effect, the advantage of one product over another is at times unclear to consumers. Pure competition is common in the agriculture industry and in markets for financial assets such as stocks, bonds, and mutual funds. In the financial services market there is an endless array of companies, so it is often very difficult for customers to make decisions about which ones to use. Very often the deciding factor is performance and level of service provided. Consequently, financial services firms tend to differentiate themselves by marketing their success—their investment track record or reputation in the industry.

## Competitive Strategies

Once an organization has identified the type of competition it faces, its attention shifts to the strategies of competitors. It must monitor competition from direct and indirect sources. **Direct competition** is competition from alternative products and services that satisfy the needs of a common target market. For example, in the toothpaste market, two companies marketing two brands dominate the market.

Procter & Gamble's Crest toothpaste and Colgate-Palmolive's Colgate Total toothpaste each control about one-third of the market. All other brands, and there are many of them, divide the remaining third of the market. To protect or build market share, each brand focuses on product innovation and extensive marketing communications programs to try to get an edge on its rival. Refer to the Crest illustration in **Figure 2.4**.

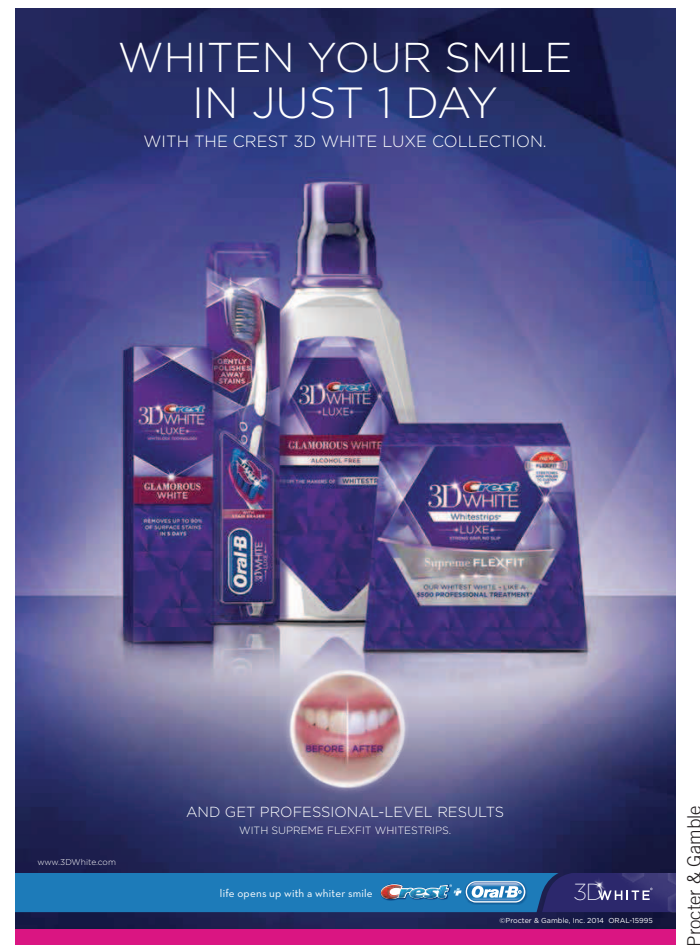
In the razor market, Gillette is the market leader with offerings such as the Gillette Fusion ProGlide razor, the Fusion Power razor, and the Mach3 Sensitive razor, but Gillette faces stiff competition from Schick, which markets the Quattro Titanium razor and the Quattro Midnight razor. Both brands invest significant sums of money in marketing communications to differentiate their offerings, attract new users, and encourage users to switch brands. Typically, both brands use advancements in technology to identify improved benefits for the customer.

Firms must also consider indirect competition. **Indirect competition** is competition from substitute products that offer customers the same benefit. For example, when someone is thirsty, they may reach for a soft drink such as Coca-Cola or Pepsi-Cola, two products that are direct competitors with each other, and with any other carbonated soft drink. However, consumers have a broader choice, and in the age of healthier living they are looking seriously at beverage alternatives. Other categories such as bottled waters, fruit juices, iced teas, sports drinks, and energy drinks are potential substitutes for soft drinks.

Therefore, brands such as Coca-Cola and Pepsi-Cola must consider the actions of an extended list of competitors when they develop marketing strategies for carbonated soft drinks. Both Coca-Cola and Pepsi-Cola understand and react to consumer trends in beverage consumption by introducing new products in the other beverage categories. Both companies describe themselves as "beverage" companies, not soft drink companies. Coca-Cola, for example, markets Dasani water, Minute Maid juices, Powerade sports drinks, and Full Throttle energy drinks. Pepsi-Cola markets Aquafina water, Tropicana juices, Gatorade sports drinks, and Amp Energy drinks. Both companies compete with many other brands in all of these beverage categories.

The nature of competition is changing and the lines between traditional competitors are becoming blurred. In the pharmacy market, for example, Pharmasave, Jean Coutu, and London Drugs are direct competitors and used to be concerned only about one another. Now, Target, Walmart, and Loblaws all offer pharmacy services and are indirect competitors with the major drugstores. In fact, the sale of prescriptions and over-the-counter drugs in supermarkets and general merchandise stores now accounts for about \$6.1 billion annually, or 21 percent of all sales.<sup>18</sup> In the grocery business, Walmart has added a complete supermarket in its superstores and poses a real threat to established chains such as Loblaws, Sobeys, and Metro.

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



**Figure 2.4** Product innovation and effective advertising help keep Crest toothpaste ahead of its competitors.

#### indirect competition

Competition from substitute products that offer customers the same benefit.



**Video: New Coke Ads Defend Safety of Artificial Sweeteners**





# ThinkMarketing

## Indigo Books & Music Inc. Transforms Itself

Heather Reisman, Indigo's chief executive officer, has global ambitions for Canada's biggest book chain. Indigo is going through a "fundamental transformation," explains Ms. Reisman. "Our intention is that the new Indigo will be a global company."

Given the current environment, however, achieving this goal will be a challenging task. The company has seen traditional book sales at its 236 stores slowly erode in recent years, given stiff competition from mass discounters and an increase in online book sales and digital books. Indigo's revenue slid 4.4 percent to \$893 million from \$934 million at 2013 fiscal year end. The book retail industry as a whole also saw sales fall 4.9 percent in Canada, to \$973.8 million.

Booksellers such as Indigo are being forced to reinvent their businesses as digital trends squeeze their traditional sales and profit margins, prompting them to turn to new, higher-margin areas of growth. As Ms. Reisman points out, many customers browse in-store, only to go home to purchase the items they want online at the cheapest possible price. She says Indigo sells books online at cost while other retailers do so below cost to drive sales of other products.

People are also transitioning from paper books to e-readers and e-books. Digital reading now makes up about 20 percent of total book market sales. The e-book market in 2012 peaked at 17.6 percent of sales in the first quarter, but declined over the rest of the year to hit 12.9 percent in the fourth quarter, according to a recent study.

To continue navigating the changing book retailing landscape, Indigo is betting on an international push, as well as a repositioning of its Canadian stores. "As books are being cannibalized by e-readers and Amazon and online, we know we need to grow our business in other areas to really make up for that book decline," explains Tod Morehead, executive vice president, group general merchandise manager at Indigo.

The company has been on a multiyear journey to reimagine Indigo as the world's first "lifestyle" department store—a multichannel, multicategory retailer that is branching out into home goods, toys, children's clothing and now, Apple tech shops, while keeping books as a key offering. As part of its strategy to transform into a trend-setting retailer, Indigo has been reconfiguring its superstores into stores that house a number of small shops within the larger store. The first Indigo Tech boutique opened recently in Toronto and forty more are planned in 2014, within the



CNW Group/Indigo Books & Music Inc./Newscom

retailer's superstores, carrying items such as iPads and Apple TV. Indigo also plans to create an in-store boutique featuring American Girl, a popular doll brand with dolls that sell for over \$100. These newest in-store boutiques will include a doll hair salon, apparel, books, and accessories.

The other major factor facing Indigo is rising competition from large generalist retailers, including U.S.-based discount giants Walmart, Costco, and now the recently launched Target. All of them are expanding in Canada, and are continuing to steal sales from Indigo. Indigo's management believes that by broadening its scope the company will be in a better position to take on deep-pocketed global rivals.

Indigo has invested time and money to better understand the changing market place and hopes that its new direction will pay dividends at the cash register. The company has developed unique marketing strategies to meet the changing expectations of consumers and remain competitive. Indigo isn't expecting to reap the benefits of its transformational efforts and investments much before 2016, says Reisman. "Early indications are trending very much in the right direction." Non-book sales of items now represent about 22 percent of overall sales at Indigo, compared with roughly 12 percent five years earlier. And those general merchandise sales are gaining momentum every month.

### Question:

**Do you think Indigo is making the right changes for long-term success? If not, what other opportunities should Indigo pursue?**

*Adapted from: M. Strauss, "American Girl dolls coming to Canada's Indigo stores," The Globe and Mail, [www.theglobeandmail.com/report-on-business/american-girl-dolls-coming-to-canadas-indigo-stores/article15133826/#dashboard/follows/](http://www.theglobeandmail.com/report-on-business/american-girl-dolls-coming-to-canadas-indigo-stores/article15133826/#dashboard/follows/); and M. Strauss, "Indigo's next chapter could be global," The Globe and Mail, [www.theglobeandmail.com/report-on-business/indigo-targets-global-market-in-fundamental-transformation/article12799375/](http://www.theglobeandmail.com/report-on-business/indigo-targets-global-market-in-fundamental-transformation/article12799375/)*

## The Competitive Position

A firm's market share indicates its competitive position in the marketplace. In a brand-marketing situation, **market share** is the sales volume of a brand expressed as a percentage of the total product category sales volume. For example, if a brand has \$1 million in sales in a market valued at \$10 million, its market share would be 10 percent. Market share may also be calculated on the basis of unit sales instead of dollars. Competing products are classified in many ways. Author Philip Kotler describes and classifies competitors as leaders, challengers, followers, and nichers.<sup>19</sup>

A **market leader** is the largest firm in a given industry and is a leader in strategic actions (e.g., new-product innovation, pricing and price increases, and aggressive promotion activity). Subway is an example of a market leader. It is the world's largest fast-food chain by store count. By January 2014 there were 41 217 Subway locations in 105 countries. Subway also enjoys the biggest bite in the "sub wars" with 62 percent market share. Its closest rivals are Mr. Sub with 14 percent and Quiznos with 6 percent. Subway's dominant position is the result of successful marketing—it was first to bring to market healthy products made with fresh ingredients, offers a good price proposition, maintains a strong presence in the social media community to attract and retain customers, and is readily available—there are 3034 outlets in Canada.<sup>20, 21 & 22</sup> No direct competitor is remotely close to that! See Figure 2.5.

A **market challenger** is a firm or firms (product or products) attempting to gain market leadership through aggressive marketing efforts. Perhaps the best example is the battle between Pepsi-Cola (the challenger) and Coca-Cola (the leader). While Coca-Cola retains leadership, Pepsi-Cola implements more aggressive marketing strategies. Pepsi-Cola has never been afraid of comparing the quality of its product to Coca-Cola in its effort to attract Coca-Cola drinkers to its brand.

In the smartphone category, Apple is challenging Samsung, the market leader, by launching the iPhone 5C into the affordable-price smartphone segment and ensuring the Apple platform delivers an overall exceptional experience to users.<sup>23</sup>

A **market follower** is generally satisfied with its market share position. Often, it has entered the market late and has not incurred the research and development costs that innovators do. As a result, it is content to follow the leaders on product, price,

**market share** The sales volume of one competing product or company expressed as a percentage of total market sales volume.

**market leader** The largest firm in the industry and the leader in strategic action.

**market challenger** Firm or firms attempting to gain market leadership through aggressive marketing efforts.

**market follower** A company that is generally satisfied with its market-share position.



© MorePixels/Stockphoto

**Figure 2.5** Subway dominates the fresh sandwich market in Canada.

**market nicher** A firm that concentrates resources on one or more distinguishable market segments.

**niche marketing** Targeting a product line to one particular segment and committing all marketing resources to the satisfaction of that segment.

distribution, and other marketing actions. In a product category such as toothpaste, for example, Colgate in its various sizes and formats is the current market leader with Crest just behind as the challenger. Remaining brands, such as Tom's of Maine, Sensodyne, Oral B Rembrandt, Aquafresh, and others, have less than 5 percent market share and are followers. Brands such as these do not have the financial resources to compete with the leaders.

A **market nicher** practises niche marketing. **Niche marketing** refers to the concentration of resources in one or more distinguishable market segments. A market nicher specializes in serving niches that larger competitors overlook or are simply not interested in. A market nicher is the big fish in a small pond, as opposed to the little fish in a big pond. In order to niche market, a firm differentiates itself on the basis of specialization or an area of strength.

For example, Porter Airlines started by offering 10 round-trip flights between Toronto and Ottawa. Porter has been focusing on short-haul travel by offering customers convenience, speed, and a list of services not offered by the bigger airlines: complimentary in-flight food and beverages, free shuttle buses, and a complimentary espresso bar waiting lounge.<sup>24</sup> Bigger airlines such as Air Canada and WestJet, with much higher operating costs, would have a tough time competing in this market niche. Porter recently announced plans to broaden its service by opening up new destinations, such as Vancouver, Edmonton, Calgary, Winnipeg, Los Angeles, Florida, and the Caribbean. This growth strategy allows Porter to continue to serve its niche markets, while entering into direct competition with major airlines in other markets. Air Canada and WestJet have responded by launching their own discount subsidiaries, Rouge and Encore respectively. Competition is heating up in the Canadian airline industry!<sup>25</sup>

## SOCIAL, ENVIRONMENTAL, AND DEMOGRAPHIC FORCES

**L04** Discuss how social, environmental, and demographic forces shape marketing strategies now and in the future.

When developing marketing strategies, marketers must be aware of and react to certain social changes taking place. How Canadians perceive social issues is very important. For a variety of reasons, the lifestyle that Canadians enjoy is changing. As well, Canadians are showing deeper concern for issues related to ethical business practices and how corporations preserve and protect the natural environment. Successful companies are responding by focusing on a triple bottom line—people, planet, profits.

### Lifestyles

Canadians live very hectic lifestyles. The conundrum for most families is how to balance work life with family life. Generally speaking, we are now a society that places a greater emphasis on quality of life rather than work. That said, work is essential to sustain the desired quality of life, and Canadians are working harder than ever. The traditional 40-hour workweek is a myth. People choose to work longer hours to get ahead and to delay retirement.

Being pressed for time suggests a need for convenience. Many industries have reacted to this. For example, the home services industry has exploded as aging baby boomers that used to be do-it-yourselfers have become the do-it-for-me generation. They don't have time for house-related chores and repairs. This change has resulted in all kinds of new services being offered by retailers such as The Home Depot, Rona, and Lowe's. Drive-throughs at McDonald's, Wendy's, KFC, and other restaurants now



generate as much as 50 percent of their revenue as they directly appeal to the on-the-go consumer. Grocery retailers have also capitalized on the convenience trend by expanding their deli sections to include offerings of fresh and ready-to-go meals. The deli section of a supermarket continues to be one of the biggest and most profitable areas. Pre-packaged lunches that are ideal for kids' lunchboxes are also popular with busy moms.

Consumers are expressing a stronger concern for health and welfare. Issues such as childhood obesity and the aging process are causing consumers to make wiser choices. As a result, people will continue to spend more for products and services related to a healthy lifestyle. Marketers are responding to these new demands. For example, in 2010 the world's largest food and beverage companies voluntarily agreed to remove billions of calories from the products they sell to help combat obesity. According to a study released in January 2014, the participating firms have already exceeded their five-year goal.<sup>26</sup> Kraft, one of the food companies participating in this initiative, has put a cap on portion size for single-serve packages and has implemented new guidelines to improve the nutritional characteristics of all of its brands. In its marketing communications, Kraft encourages appropriate eating habits and active lifestyles.

For many years Unilever has been committed to offering consumers choice, for instance, Hellmann's Original (80 percent fat), Hellmann's Light (37 percent fat) and Hellmann's Extra Light (7 percent fat). Unilever has also been ahead of the curve in terms of nutritional labelling and health claims, by incorporating more comprehensive front-of-pack information that make it easier for busy shoppers to make informed choices.<sup>27</sup> Refer to the illustration in **Figure 2.6**. All companies in the food industry must now meet Health Canada's new nutrition labelling regulations that are designed to provide consumers with the necessary information to make wise choices.<sup>28</sup>

## Social Responsibility and the Natural Environment

The concept of socially responsible marketing was introduced in Chapter 1. To extend that discussion further it must be noted that Canadian consumers have a genuine concern for the environment, and they show a preference toward companies that act responsibly with regard to protecting the environment they live in. This attitude has a definite impact on how an organization plans and implements its manufacturing processes and marketing programs.

Many companies embrace cause-related marketing and provide financial support to causes of interest to their customers. Well-publicized financial support for a worthwhile cause can have a positive effect on the consumer's perception of a brand. It can help form an emotional connection between the brand, the cause, and the consumer. Such is the benefit that CIBC derives from its ongoing title sponsorship of the Canadian Breast Cancer Foundation CIBC Run for the Cure, where the overall goal is to raise funds to help find a cure for breast cancer.

But companies now realize they must go beyond financial contributions and demonstrate ethical business practices that benefit society. Today, companies are much more socially responsible, and they communicate to the public what they are doing to try and make the world a better place. The entrepreneurs behind Rumble, a highly nutritious single-serve drink, have taken this business



Video: Toms Shoes



Reproduced with kind permission of Unilever PLC and group companies.

**Figure 2.6** Comprehensive front-of-pack information makes it easier for busy shoppers to make informed choices.





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

philosophy to heart. The company donates 1 percent of all sales to various charities that fight hunger. Says Paul Underhill, co-founder of Groove Nutrition, the company that makes Rumble, “We’re mindful that hunger takes many forms. That’s why we love the One Percent for Hunger initiative and the opportunity to be part of something greater than ourselves. We can all nourish the planet. With every sale of Rumble, we are hoping to do just that.” Groove Nutrition considers the environment, too, by using a novel container for Rumble that is resealable, recyclable, and repurpose friendly. See **Figure 2.7** for an illustration.<sup>29</sup>

In the consumer electronics industry, Panasonic is demonstrating a commitment to preserving and protecting the environment. The company is committed to the principles of pollution prevention and operates in compliance

with relevant environmental legislation and other voluntary requirements it establishes for itself. The company continually strives to improve its performance with regard to environmental issues. Panasonic has established an eco-conscious initiative called Green Plan 2018. The main objectives of the plan are to create products that have less impact on the environment, to design and manufacture new lines of green products, and to make its production facilities more environmentally friendly. Currently, all Panasonic products are built using lead-free soldering. By 2018, Panasonic plans to use at least 16 percent post-consumer recycled content materials in all its products.<sup>30</sup>



**Video: Ecoist: Analyzing The Marketing Environment**

**demographics** The study of the characteristics of a population.

## DEMOGRAPHIC FORCES

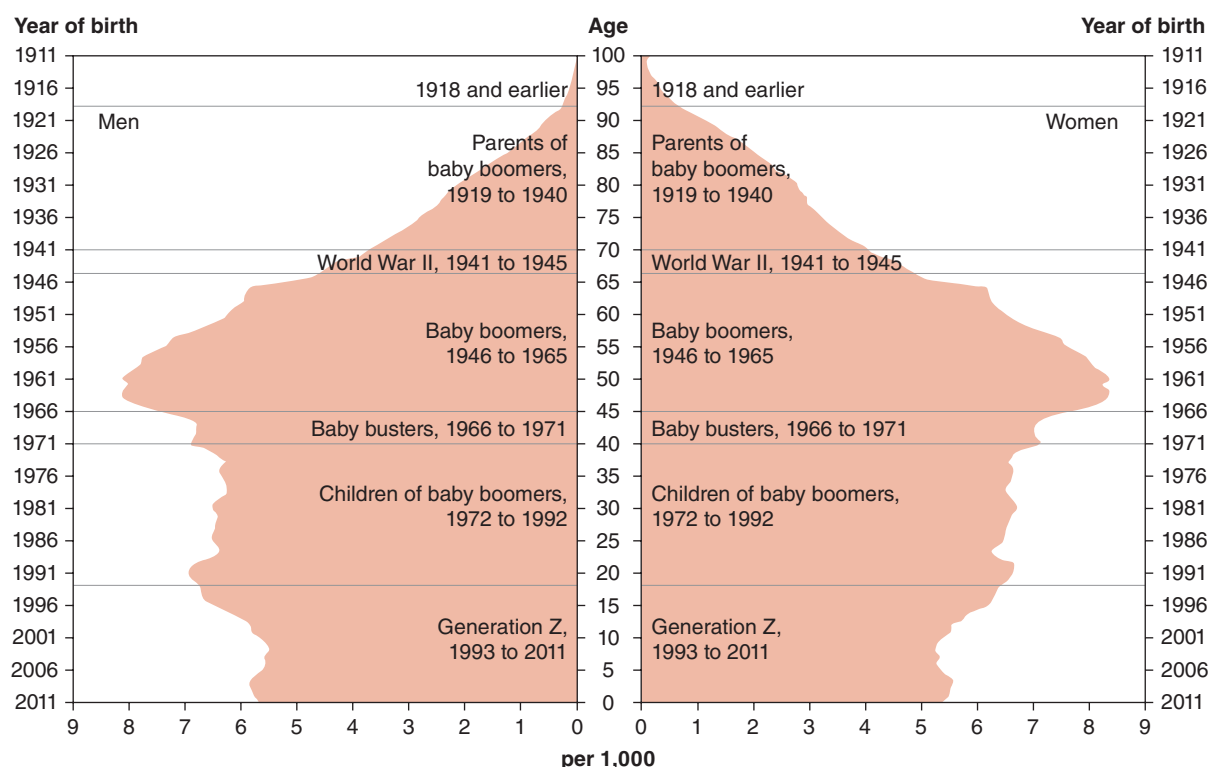
To keep abreast of the changing consumer, market planners analyze demographic and social trends. **Demographics** involve the study of the characteristics of a population. These characteristics include age, gender, income, occupation, education, marital status, family size, household formation, and ethnic background. Marketers define their target markets in terms of demographics, so it is important they understand and capitalize on key demographic trends.

The nature and composition of the consumer marketplace is changing. Today, marketers find they are dealing with consumers who are more educated and more technologically savvy. One of the biggest challenges marketers face is how to retain current customers who are getting older while attracting a new generation of younger customers. Another challenge is how to attract various immigrant populations, the numbers of which are growing rapidly.

A combination of education and technology has produced a more informed consumer: a consumer who evaluates options thoroughly before making buying decisions. For example, consumers can do much of their product research online and can access information that is delivered by the marketing organization (planned information) or from independent and more critical sources (unplanned information on social networks or blogs). They also rely on their social network and the word-of-mouth information that their friends pass on. Let us examine some of these trends.

### Size and Age

The age distribution of Canada’s population is changing. In 2013, Canada’s population was 35 158 300.<sup>31</sup> Between 2006 and 2011, Canada’s population growth rate (+5.3 percent) was the highest among the G8 countries. Since 2012, though, population increases have



**Figure 2.8** Canada's Population by Age

Source: Statistics Canada. (2011). Census of Population. Retrieved from [http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-311-x/2011003/fig/fig3\\_2-2-eng.cfm](http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-311-x/2011003/fig/fig3_2-2-eng.cfm).

settled back down to average annual gains of around 1 percent a year, a rate comparable to that of the United States. Population growth is determined by four factors: birth rates, death rates, immigration, and emigration. Two-thirds of Canada's population growth in the most recent five-year period is attributable to immigration. Looking farther down the road, baby boomers are aging and death rates will be higher than birth rates. By 2030, Canada's entire population growth will come from immigration.<sup>32</sup>

Canada's population is aging. **Figure 2.8** shows that middle-aged Canadians (the group commonly referred to as baby boomers) comprise the largest portion of Canada's population. Certain age groups are growing much faster than average. Changes in the age distribution of the population are due to variations in the birth rates; the baby boom from 1946 to 1964 was followed by a "baby bust" in the late 1960s and the 1970s; a mini-boom then occurred in the 1980s. The latter group is often referred to as the echo boom, or Generation Y, and includes Canadians in their twenties. This large group of young adults is a primary target for marketers now, and will continue to be in the future. The newest demographic cluster, often referred to as Generation Z, or digital natives, includes people born between 1996 and 2012. This tech-savvy generation is one that marketers will be paying close attention to as businesses try to learn more about this highly diverse group of consumers.<sup>33, 34 & 35</sup>

It's predicted that by 2020, 30 percent of all retail sales will be to millennials.<sup>36</sup> Major brands like McDonald's, Walmart, and Budweiser are already focusing on millennial consumers. In May 2013, McDonald's launched a McWrap, saying that its customers aged 18–32 were asking for healthier menu options. In the United States, Walmart is opening smaller versions of its stores on college campuses and in untapped urban markets with large millennial populations. On the other hand, the baby boomer segment of the market is projected to be 40 percent of Canada's population by 2021.<sup>37</sup> The aging population will also provide challenges and opportunities for marketing organizations. For instance, within a decade, seniors will outnumber children. The combination of aging boomers and seniors will alter the social landscape as more pressure is placed on the health-care

**Figure 2.9** Projected Population in Canada by Age

Age Group	2013 (000s)	% of Population	2021 (000s)	% of Population	2026 (000s)	% of Population
0–19	7878.2	22.6%	8499.3	22.1%	8977.9	22.3%
20–34	7256.1	20.8%	7421	19.3%	7269.8	18.0%
35–49	7410.9	21.2%	7630	19.9%	8116.2	20.1%
50–64	7201.6	20.6%	7763.7	20.2%	7540.4	18.7%
65+	5175.1	14.8%	7091.5	18.5%	8383.5	20.8%

Source: Statistics Canada, CANSIM, table 052–0005.

system and the labour market.<sup>38</sup> Goods and services that encourage healthier lifestyles, security services and products, and products that extend vitality and longevity should have a bright future. The pharmaceutical industry has already tapped into this market with products such as Viagra and Cialis (remedies for erectile dysfunction), Lunesta (a product that makes people sleep better), and Lipitor (a product that lowers cholesterol levels). See **Figure 2.9** for details on age trends in Canada.

## Location

More Canadians than ever before live in cities. According to the 2011 census data, 81 percent of the population lives in urban areas. Canada has six metropolitan areas with more than one million people—Toronto, Montreal, Vancouver, Ottawa-Gatineau, Calgary, and Edmonton. A total of 13.6 million residents, or 45 percent of Canada's population, live in these urban areas. Between 2006 and 2011 the population of Calgary grew by 12.6 percent and Edmonton by 12.1 percent, well above the Canadian average. In 2011, only one in five Canadians (six million people) lived in rural areas.<sup>39</sup>

In the largest metropolitan areas population growth has occurred mainly in the municipalities that surround the cities. These areas are called census metropolitan areas. A **census metropolitan area (CMA)** encompasses all urban and rural areas that are linked to a city's urban core, either socially or economically. In Toronto, for example, the CMA includes Mississauga to the west, Vaughan to the north, and Oshawa and Whitby to the east.

To further demonstrate the concentration of Canada's population in urban areas, the Greater Golden Horseshoe (a region that includes Toronto and extends to Kitchener in the west and Peterborough in the east), Montreal, and Vancouver share special demographic characteristics: their growth is largely due to international immigration and the pull that these large urban centres have on younger adults from other parts of the country.<sup>40</sup> The Greater Golden Horseshoe consists of more than 100 municipalities, 16 of which have a population of more than 100 000. In Western Canada, the populations of both Calgary and Edmonton now exceed one million, and these cities are Canada's fastest growing urban areas.

Keeping track of where Canadians live is an important consideration when developing marketing strategies. In order for products and services to succeed in the future, there will have to be a greater concentration of marketing strategies in key urban areas. The trend toward urban living is expected to continue.

## Family Formation and Household Size

The nature of Canadian families is changing. Essentially, families are getting smaller and becoming less traditional in structure. The traditional family was a married couple with a few children. Many Canadians now postpone marriage or dispense with it

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

altogether. Common-law unions are increasing, while people who do marry are doing so later in life. Now, married couples comprise only 67 percent of all Canadian families, and common-law couples 16.7 percent. Lone-parent families (predominantly lone females) represent the remaining 16.3 percent of Canadian families. The number of same-sex married couples nearly tripled between 2006 and 2011, reflecting the first five-year period for which same-sex marriage has been legal. Same-sex common-law couples rose 15.0 percent, slightly higher than the 13.8 percent increase for opposite-sex common-law couples.<sup>41</sup> Refer to **Figure 2.10**.

More and more children are born and raised outside marriage or experience the breakdown of their parents' marriage. As a result, we are witnessing an evolution in cultural values where there is a difference between younger and older people in terms of their attitudes, values, expectations, and assumptions.

Canadians, many of whom have children, now have relatively high rates of separation and divorce. New forms of cohabitation have produced the **blended family**, which brings together children of previous marriages, and where kids may move back and forth between parents.

In the past decade, there was a back-to-the-family-unit trend as baby boomers, who had previously delayed marriage to pursue careers, started forming families. In fact, the baby boomers created a mini boom (Generation Y). What has emerged is the so-called **sandwich generation**, in which people are simultaneously trying to assume responsibility for dependent children and care for aging relatives. A growing number of Canadian grandparents are sharing homes with their grandchildren, many as part of three-generation households formed as a result of economic, social, or cultural needs.<sup>42</sup> This trend places an added burden on family finances. The burden is magnified by the fact that young adults between 20 and 29 years of age have decided to extend the period in which they live with their parents. Many members of Generation Y prefer the comfort, security, and convenience of their parents' homes.

It is estimated that as much as 10 percent of the population is gay or lesbian. Same-sex marriage partners are creating new kinds of families, and these households are of interest to marketers. Progressive-minded marketers see the gay market as an opportunity for growth. The gay community will spend over \$800 billion this year. A large percentage are affluent, hip, and trendsetting.<sup>43</sup> Recent marketing research conducted by the Print Measurement Bureau reveals that gays and lesbians are more attentive to personal improvement. They are three times more likely to use a hair gel daily, 75 percent more likely to use a face moisturizer, and twice as likely to use bath additives—good information for marketers in the personal care products industry—Procter & Gamble, Unilever, L'Oreal, and others.<sup>44</sup>

Canadian households continue to shrink in size. Currently, the average Canadian family has 2.5 members, a reflection of the marriage trends described earlier. Since 2001 there has been a large increase in one-person households. The households with the slowest growth are those composed of couples with children aged 24 years and under.<sup>45</sup> The character of the family has changed for economic reasons. With each passing decade there are more women in the workforce. Two wage earners per household has become the norm, so it is expected that the number of members within each household will remain small.

## Spending Power and Wealth

How much people earn has an impact on their spending patterns and priorities. The trend in recent years is for Canadians' **disposable income** (after-tax income) to grow at a lower rate than the cost of basic necessities required in a household (food, shelter, car,



© Carol Lundeen/Alamy

**Figure 2.10** The number of same-sex married couples is growing.

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

**sandwich generation** A generation of parents who are simultaneously caring for children and aging relatives.

**disposable income** Actual income after taxes and other expenses; it is income available for optional purchases.



## 44 Chapter 2 The External Marketing Environment

clothing, supplies, utilities, and so on). Canadians are working harder than ever, yet there seems to be less money for discretionary purchases such as vacations, sports, and recreational activities. Lower- and middle-income families (the masses) are more cautious about how and on what they spend their money.

Another trend in Canada is the concentration of wealth among upper-income groups. The old expression “the rich are getting richer and the poor are getting poorer” applies here. Census data from Statistics Canada verify a polarization of incomes at the upper and lower ends of the spectrum. The top one-fifth of Canadian families had an average after-tax income of \$135 500 in 2010, while the lowest one-fifth of Canadian families earned \$14 600, a gap of \$120 900.<sup>46</sup>

How people spend their disposable income varies with the state of the economy. As discussed earlier in the chapter, the current economy is growing only modestly, so generally speaking consumers are more cautious about how they spend their money, or they continue to spend at a high level and accumulate significant personal debt. In contrast, people in the high-income groups tend to spend regardless of the economic situation. Refer to **Figure 2.11** for an illustration.

**Figure 2.11**

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

## Make them stare.

Not that they'll have much of a choice. The aggressive air intakes and chiselled lines of the 2014 Mercedes-Benz CLA make a striking first impression. But with a 208 horsepower turbocharged engine you'll no doubt give them a better view of its LED tail lamps and twin chrome exhausts. To see for yourself, visit your local dealer or [mercedes-benz.ca/cla](http://mercedes-benz.ca/cla)

The 2014 CLA. Starting at \$33,900\*.



Mercedes-Benz

© 2014 Mercedes-Benz Canada Inc. \*National MSRP pricing is shown and is intended for information purposes only. Prices do not include taxes, license, fees, freight and delivery charges, insurance and license fees, as well as any other products or services not listed that may be available to you through your selected Mercedes-Benz dealership. Vehicle prices subject to change. Dealer may sell for less. These prices do not apply in provinces with total/all-in pricing requirements. All-in pricing for the 2014 CLA 250 base model up to \$36,960 dependent on region. Taxes, license, registration, and insurance are extra. 2014 CLA 250 with optional Sport Package and optional Bi-Xenon Headlamps shown above, National MSRP \$36,350. Please contact your local dealership directly for exact pricing details and total pricing applicable in those provinces.

Marketing organizations that target the lower- and middle-income groups find it wise to stress value in their marketing strategies. Walmart is an expert at this. During the last recession, Walmart changed its slogan to “Save money. Live better.” Walmart experienced monthly sales increases while competitors were losing business. Walmart always emphasizes price and value in its marketing communications.

## Education

New jobs in North America have higher entry requirements than ever and are largely based on technology. More than ever before, education and training are key issues if Canada is to compete globally. It is imperative that Canadians possess the necessary skills to cope with ever-changing technology; shortages in basic skills would adversely affect Canada’s ability to compete. So that we may have a well-trained workforce in the future, it is expected that governments and industries will have to cooperate to increase spending on quality education.

The Canadian population is now better educated than ever. Canada ranks highest among countries that are members of the Organisation for Economic Co-operation and Development (OECD) in terms of the proportion of its working-age population that has a college or university education. Currently, 51 percent of our working population has a post-secondary certificate, college diploma, or university degree. The OECD average is 38 percent.<sup>47</sup> The demand for higher education is a factor affecting marriage rates and household formations (discussed earlier). Young men and women who have opted for more education are more likely to extend their stay in the parents’ home and delay marriage.

From a marketing perspective, customers are now more informed and they take more time deliberating on purchases. Consumers are using the Internet to search for goods and services that provide better value. Generations Y and Z have grown up with the technology required for this, such as tablets and smartphones. To effectively reach this group, marketers must adapt their marketing strategies to digital media or face rather harsh consequences.

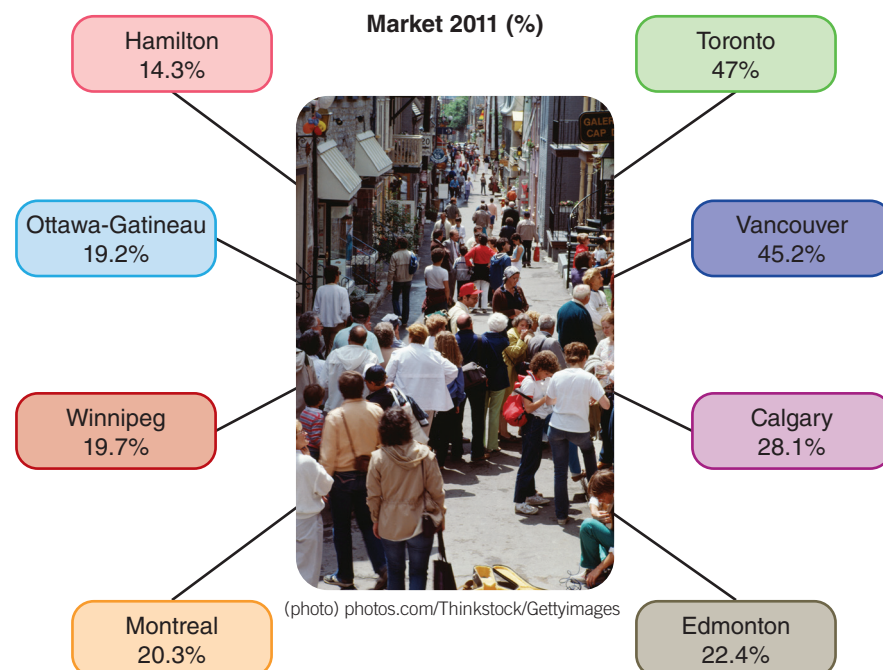
## Multiculturalism

Canada is a culturally diverse country. Aboriginal populations have grown by 20 percent over the past five years and represent 4.3 percent of Canada’s population—up from 3.8 percent in 2006.<sup>48</sup> Also, immigration trends indicate that the makeup of the population is continuing to shift away from one of a predominantly European background. Existing within Canadian culture are many diverse **subcultures**—subgroups within a larger cultural context that have distinctive lifestyles based on religious, ethnic, and geographic differences.

**subculture** A subgroup of a culture that has a distinctive mode of behaviour.

Currently, Canada’s foreign-born population represents 20.6 percent (one in five Canadians) of the total population, and it is expected to rise to as high as 23 percent by 2017.<sup>49</sup> Most immigrants come from the Philippines, China, and India, although Africans are also arriving in growing numbers. Canadians of Asian ancestry now comprise 58 percent of immigrants entering Canada, at 11 percent of the population (East Asians comprise 7 percent and West Asians 4 percent). As in the past, newcomers are settling in Canada’s biggest cities and are generally younger than the established population (31.7 years compared to 37.3 years). Of Canada’s 6.8 million immigrants, 63.4 percent live in the Toronto, Montreal, or Vancouver areas.<sup>50</sup> Refer to **Figure 2.12** for details.

Companies that recognize the importance of the diverse multicultural markets stand to profit. The sheer size of this developing market and the fact that unique groups tend to cluster in urban areas make them a reachable target for Canadian brands. The key to an organization’s success is to spend time learning more about the target—their customs, beliefs, mores, and so on—and then formulate appropriate marketing strategies. Walmart is a leader in this area. It has identified the South Asian, Cantonese, Mandarin, Spanish, Portuguese, and Italian communities as priorities. Walmart adjusts its merchandising



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

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

strategies to meet local, culture-based market conditions and runs television ads featuring people belonging to the minorities listed.

For more insight into ethnically based marketing practices in Canada, read the Think Marketing box—**Ethnic Diversity Presents New Marketing Opportunities**.

## TECHNOLOGICAL FORCES

**L05** Identify and explain the effect technological trends and developments have on current and future marketing practices.

The technological environment consists of the discoveries, inventions, and innovations that provide for marketing opportunities. New products, new packaging, cost-reduced materials, and the emergence of electronic commerce and communications are all the result of technological advancement. Over the past decade the role and influence of the Internet has had a dramatic impact on the development of marketing and marketing communications strategies. In fact, it has forced many organizations to rethink and reshape their business models in order to take advantage of new opportunities.

Technology will continue to be the driving force for change in the next decade. From how a company collects and uses information, to the development of new products, to improving production and distribution processes, to how a company communicates with current and prospective customers, all are affected by technology. Perhaps the areas of marketing affected most are those that involve how customers will be managed to maximize revenue and profit, and how companies communicate with customers. To demonstrate the influence of technology, there is no better example than the ways in which people use mobile devices today. Examine your own behaviour with your cell phone. Try not using it for a few days—you will slowly suffer the pain of withdrawal! Products such as Apple's iPhone and the Samsung Galaxy are integral components of the daily routines of Canadian consumers. Digital habits are being formed at a very early age. According to a 2013 study, 25 percent of grade four students have cellphones.<sup>51</sup>





# ThinkMarketing

## Ethnic Diversity Presents New Marketing Opportunities

There's an old expression: "Sometimes numbers speak louder than words." Let's look at a few numbers that seem to speak volumes about a potential marketing opportunity:

- Over 6.2 million people in Canada belong to a visible minority.
- Immigrants account for over 25 percent of the population in metropolitan areas.
- Visible minorities make up around 20 percent of the population.
- The three largest ethnic groups, South Asians, Chinese, and Blacks, represent just over 61 percent of the visible minority population.

Are marketing organizations moving fast enough to take advantage of these numbers? In terms of size, Canada (in total) is perceived by many global organizations to be a small market, so to break down the market further and absorb the costs of definitive marketing strategies for various ethnic groups may not be profitable. A detailed cost-benefit analysis would be needed to determine a move in that direction. "It just comes down to the size of the market—it's that simple," says Ken Wong, marketing professor at Queen's University.

Clorox Company of Canada understands the importance of multicultural marketing. "As the consumer landscape in Canada is changing, we felt we had to make some fundamental changes to our business model," explains Kaery Lall, business lead—national shopper marketing and multicultural brand strategy. "We saw the country is letting in about 250 000 immigrants every single year. So we want to make sure we are talking to those consumers in a way that we maybe haven't done in the past."

Clorox started by doing some research to find out about the country's two largest ethnic groups—South Asians and Chinese. The Clorox marketing team wanted a detailed picture of their demographics and psychographics, including their tastes and preferences in relevant product categories as well as what the immigrant experience is like for them.

Clorox's first campaign was the launch of a limited-edition red water filter for its BRITA® water pitchers brand in



BRITA® water pitchers and the BRITA® water pitchers logo are registered trademarks of Brita LP. Used with permission.

celebration of Chinese New Year. The decision was made based on the fact that BRITA® water pitchers is a popular brand among Chinese consumers and red is associated with good fortune, especially during New Year celebrations. In just the first eight weeks of the launch, the red filter became one of the fastest-selling BRITA® water pitchers ever.

The company continues to invest in its multicultural strategy. "We have a full-blown multicultural strategy specifically targeted towards Chinese and South Asian Canadians," says Lall. "We're not just going to alter the packaging once and call that ethnic marketing. We're aiming to create a long-term, meaningful relationship with these customers. They have unique needs, especially in the first five to ten years of immigrating to Canada, in terms of their product education and usage."

### Question:

**What are some ways Clorox could further enhance its relationship with Chinese and South Asian Canadians?**

*Adapted from: Statistics Canada. (2011). National Household Survey, and C. Daniels, "Multicultural marketing: The visible majority," Marketing, March 12, 2012.*



## Managing Customers

Today's technology allows companies to deal with customers on an individual basis; that is, unique marketing strategies can be developed for each customer. This capability is based on database marketing technology and is referred to as customer relationship management (CRM). An effective customer relationship management program continually collects information about customers in the database (a computer-based information file), analyzes the information to predict how likely the customer is to buy again and what they are likely to buy, and then develops a marketing strategy precisely designed to meet the needs of the customer.

Customer relationship management programs (discussed in Chapter 1) are based on database technology. Companies such as Canadian Tire, Bell, Apple, Shoppers Drug Mart, Unilever, and Procter & Gamble realize the importance of customer relationship management and have successful database programs in place. These companies and many others employ toll-free telephone numbers, telemarketing, personal selling, and online communications to target messages directly to individual customers. They also use social media networks to seek feedback from consumers, to engage consumers with their brands, and to deliver unique offers. The concept of relationship marketing is based on the belief that it is less expensive and more profitable to hold on to current customers than to attract new ones. Databases and CRM will be discussed in more detail in Chapter 3.

## Technology and Marketing Communications

Traditionally, marketers relied on the mass media (television, radio, newspapers, magazines, and outdoor advertising) to deliver messages to large audiences. However, technologies such as the Internet, laptops, tablets, and smartphones are changing the way customers use media. People today are busier and more mobile than ever; they travel with these electronic devices and use them to access information. The rapid growth in the development and use of these technologies means people are spending less time with television, radio, newspapers, and magazines. For the latest trend information on media consumption by Canadians refer to **Figure 2.13**.

Technology is changing how marketers think about the media. Terms such as *video-on-demand*, *rich media*, *blogs*, and *social media* highlight the environment in which marketers operate. The challenge for marketers is to figure out the best way of integrating individualized media with the more traditional mass media environment. As mentioned in Chapter 1, control has shifted from the marketer to the consumer, a significant change that marketers are adapting to.

**Figure 2.13**  
Canadian Media Usage

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

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

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

In the past, younger people dominated digital communications. That's not the case any longer! A recent study by the Interactive Advertising Bureau of Canada "found that the Internet provides marketers with a mirror image of the age profile [for users] of other major media, particularly when comparing the Internet to television."<sup>52</sup> Thinking strategically, marketers now view the Internet and everything it offers as complementary to traditional media, and believe that when used together, the two media will more effectively achieve marketing objectives. Some organizations, such as Pepsi-Cola, are going a step further. Pepsi has transferred a full third of its advertising budget online and is using the Internet as a primary media for launching new products. From Pepsi's perspective, the Internet and social media such as Facebook and Twitter are essential components of their marketing strategy.

Progressive-minded marketers are following their customers online. Shifting from mass-reach media campaigns, they are now implementing selective reach, highly targeted campaigns—a key benefit offered by the digital media. So sophisticated are these devices that the information collected from them allows marketers to track down the whereabouts of consumers and lets them send out offers that consumers can take advantage of immediately. This ability to directly target customers is referred to as location-based marketing, a concept that will be discussed in more detail in Chapter 6.

## The Internet and E-Commerce

Internet users are quickly adapting their buying behaviour to embrace online buying. For some time, Canadians were concerned about privacy issues and about transferring credit card information online. While a certain amount of concern remains, the rampant use of tablets and smartphones on a daily basis makes it very convenient to research products online and then conduct purchase transactions if so inclined.

Companies that have integrated online and e-commerce strategies are now seeing the benefits. For the latest year statistics are available (2012), total online sales in Canada among consumers were \$18.9 billion, a 24 percent jump from 2010. Although online shopping remains a small part of the total retail economy, accounting for just 4 percent of Canada's overall retail sales of \$470 billion annually, it is growing rapidly.<sup>53</sup> Marketing organizations see a bright future in online commerce and are revising their marketing strategies accordingly. An informative and entertaining website with e-commerce capabilities combined with a brand page on a social network like Facebook allows the marketer to interact directly with customers and build relationships that will lead to purchases. For some additional facts and figures regarding e-commerce, see **Figure 2.14**.

More and more Canadian retailers are engaging in e-commerce activities. Online storefronts—such as those for Indigo, Sport Chek, The Home Depot, and many others—make it easy for consumers to browse and shop online or browse online and shop offline. All of the product research and perhaps the decision on what to buy can be done online. When the customer visits the store they know exactly what they want.

Some companies are capable of customizing products to meet the precise needs of customers, a concept referred to as mass customization. **Mass customization** is a system that can personalize messages, and ultimately products, to a target audience of one. At Element Bars, a successful online food company, customers are invited to pick and choose the elements (or ingredients) that they want in their custom nutrition bars or granola cereal. Shoppers can even make up a brand name for their product! The company owners believe nutrition should be personal and that creating a tasty nutrition bar or cereal should be fun and easy.<sup>54</sup>

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

Other organizations are being creative with customization as well. For example, The North Face has launched a gallery of designs created by customers for its Denali jacket. Helping consumers share their creations with friends and relatives creates a sense of community and inspires others to be creative as well. The *Globe and Mail's* Dashboard now allows readers to customize their news experience on any type of digital device. Subscribers can create custom alerts, select topics or companies to follow, save stories for later reading, and watch breaking news as it unfolds.

### Figure 2.14 Canadian E-commerce Facts and Figures



#### Simulation: The Marketing Environment

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

- Canadian consumers placed orders for \$18.9 billion worth of goods and services, up 24% from 2010.
- 56% of Internet users ordered goods or services online, up from 51% in 2010.
- 77% of Internet users did research on goods or services or window shopped.
- Young adults aged 25 to 34 were most likely to make a purchase online, with 69% purchasing online in 2012.
- Of those Canadians who ordered online, the average online shopper made about 13 separate orders and spent approximately \$1,450.
- 58% of online shoppers purchased travel, such as airline tickets or hotel reservations and 52% purchased event tickets online.
- Online shopping is still a small part of the retail economy, making up just four percent of total retail sales of \$470 billion.

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

## LEGAL AND REGULATORY FORCES

**L06** Distinguish the role that laws, regulations, and self-regulation play in the practise of marketing in Canada.

Yes, Canada is a free-enterprise society, but in any society of this nature the consumer can be subjected to unscrupulous business practices—practices that serve only the needs of the business using them. Just recently, two of the world’s largest chocolate companies, Nestlé and Mars, were charged with conspiring to fix the price of chocolate treats across Canada.<sup>55</sup> In an age when ethics and corporate social responsibility are top-of-mind issues with Canadian consumers, it is difficult to believe that such practices occur. Regardless, an organization must face the wrath of the courts and the public if it steps over the line.

Numerous laws and regulations (some voluntary and some involuntary) have been put into place to protect both consumer and corporate rights and ensure that businesses compete on a level playing field. Generally speaking, laws and regulations are established for the benefit of Canadian society as a whole.

The legal environment for marketing and other business practices in Canada is the domain of **Industry Canada**. Its principal responsibility is to administer the **Competition Act**, an act that brings together a number of related laws to help consumers and businesses function in Canada. The purpose of the *Competition Act* is threefold:

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

Within the Ministry of Industry, the Competition Bureau and the Office of Consumer Affairs administer laws, regulations, and policies that influence business and marketing activity. There are many laws in areas such as competition, advertising, packaging and labelling, environmental protection, and pricing that an organization must be familiar with. Canadian companies that market internationally must also be aware of foreign laws and regulations that will influence marketing strategies.

Canadian consumers are protected by various privacy laws, the *Privacy Act*, and the *Personal Information Protection and Electronic Documents Act* (PIPEDA). The *Privacy Act* respects the rights of Canadians by placing limits on the collection, use, and disclosure of

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

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

personal information. It gives Canadians the right to access and correct any personal information about them held by government organizations.

PIPEDA sets the ground rules for how private-sector organizations may collect, use, or disclose personal information. For example, the law requires organizations to obtain customer consent before they undertake any marketing activities.<sup>56</sup> Such a law has direct implications for marketing organizations that accumulate data about their customers. It also has implications for the direct marketing industry, which relies heavily on direct-mail lists and email marketing lists to send offers to prospective customers. For more information about privacy laws, see the Privacy Commissioner of Canada website. Privacy Commissioner of Canada [www.privcom.gc.ca/](http://www.privcom.gc.ca/)

## Competition Bureau

This bureau enforces the rules that govern and promote the efficiency of a competitive Canadian marketplace. Its chief instrument for carrying out these functions is the *Competition Act*. The Bureau investigates anti-competitive activities such as price fixing, bid-rigging, false or misleading representations, abuse of dominant position, exclusive dealing practices, mergers, and deceptive marketing practices. Its role has been illustrated in decisions against several respected companies in Canada. Not long ago, the Bureau determined that Bell Canada was violating the National Do Not Call List (a set of regulations that all marketing organizations must follow) and fined the company a record-setting penalty of \$1.3 million. The Canadian Radio-television Telecommunications Commission (CRTC), the body that regulates telecommunications companies such as Bell, Telus, and Rogers, had been besieged with calls from frustrated citizens complaining about calls that interrupt dinner conversations with unwanted sales pitches.<sup>57</sup>

## Office of Consumer Affairs (OCA)

This office promotes a safe, orderly, and fair marketplace for consumers and businesses. In consultation with other government agencies and organizations that represent business groups, the mandate of the Office of Consumer Affairs is to establish regulations and programs that protect the interests of consumers and help ensure a more productive economy. To do so, the OCA works with consumers to ensure they have the information and tools needed to protect their interests, while encouraging industry to be more innovative. The OCA also works with business to develop consumer-friendly business practices through the development of voluntary codes and practices.<sup>58</sup>

The OCA ensures that dangerous products are identified and certain products that cause injury are removed from the market. The legislation under the jurisdiction of the federal Office of Consumer Affairs includes the *Consumer Packaging and Labelling Act*, the *Textile Labelling Act*, and the *Weights and Measures Act*.

In 2012, Health Canada changed the food labelling laws to address consumers' concerns about food allergies. Food manufacturers must now clearly list all common allergens such as peanuts, eggs, and soy on a product's label. The intention is to provide information on packages that allows consumers to make safer and better choices about the foods they buy. There are still some gaps in the legislation though, as foods sold in bulk, in delis and bakeries are exempt. It's up to the company selling those types of products to decide whether or not to follow the new guidelines. How a company and its brands are presented to consumers will largely depend on the corporate culture of an organization. Those that offend will be judged by their customers and face the consequences.

## Self-Regulation

**Self-regulation** is an alternative to government regulation. Organizations such as the Canadian Marketing Association (CMA) and the Canadian Bankers Association have established policies and guidelines that their member companies agree to follow. The CMA's *Code of Ethics and Standards of Practice* is the foundation of the marketing community's self-regulation.

**self-regulation** A form of regulation whereby an industry sets standards and guidelines for its members to follow.



The mission of the CMA is to identify, plan, and react to issues affecting marketing in Canada. *The Code of Ethics and Standards of Practice* promotes ethical practices among member organizations. The CMA also takes an active role in ensuring compliance. The code is a thorough document covering such issues as ethical principles, protection of personal privacy, special consideration for marketing to children and teenagers, protection of the environment, and media-specific standards of practice. For complete details of the code refer to the CMA website.

In consultation with the government, the CMA established a privacy policy that identifies principles and policies regarding the protection of personal information collected by the CMA. The objective of the policy is to promote responsible and transparent personal information management practices that are consistent with the provisions of PIPEDA (described earlier). The CMA website has complete details of the privacy policy. [www.the-cma.org](http://www.the-cma.org)

## Experience Marketing

**To experience marketing you have to assess situations and make recommendations to change marketing strategies when necessary. What would you do in the following situation?**

You are the marketing manager for Lipton Brisk Iced Tea, a popular brand marketed in Canada by PepsiCo. You are contemplating a unique marketing strategy for Canadians

of Asian ancestry but have to determine if such a strategy is feasible. As a first step you want to examine the ethnic population trends in Canada, particularly in major urban markets (Toronto, Montreal, and Vancouver).

Your challenge is to identify the best ethnic opportunity for the brand and make a decision on whether or not you would proceed with the development of a marketing strategy to support it. You must offer enough evidence to justify your decision to proceed or not to proceed. Do the benefits outweigh the costs?

## CHAPTER SUMMARY

### **L01 Identify the external forces that influence marketing.** (pp. 29–30)

Decisions about the marketing mix are influenced by conditions that exist beyond the company's control. Essentially, there are six key external influences: the economy, competition, social trends, demographic trends, technology, and laws and regulations.

### **L02 Explain the impact of the economy and various market structures on marketing practices.** (pp. 30–33)

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

### **L03 Describe the way various competitive forces influence marketing strategy development.** (pp. 33–38)

An organization's position or relative strength in a market (leader, challenger, follower, or nicher) also has an impact on marketing strategy. Leaders and challengers are typically

aggressive with their marketing strategies. Followers and nichers tend to have fewer financial resources and spend only what is appropriate to maintain their market position.

### **L04 Discuss how social, environmental, and demographic forces shape marketing strategies now and in the future.** (pp. 38–46)

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

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

challenges for marketers and will guide the direction of future marketing strategy.

**LO5 Identify and explain the effect technological trends and developments have on current and future marketing practices.** (pp. 46–50)

Technology will have a strong and direct impact on marketing. More organizations will adopt database management techniques and implement customer relationship management programs. Marketing communications will shift in the direction of digital communications and away from the mass media. The growth of

e-commerce strongly suggests that Web-based marketing strategies be integrated into an organization's marketing strategy.

**LO6 Distinguish the role that laws, regulations, and self-regulation play in the practise of marketing in Canada.** (pp. 50–52)

All marketers must be aware of and follow provincial and federal laws and the rulings of regulatory agencies. Marketers know that being socially responsible not only makes sense, it is good for business. Many companies are embracing a triple bottom line philosophy: people, planet, profit.

### MyMarketingLab

Study, practise, and explore real marketing situations with these helpful resources:

- **Interactive Lesson Presentations:** Work through interactive presentations and assessments to test your knowledge of marketing concepts.
- **Study Plan:** Check your understanding of chapter concepts with self-study quizzes.
- **Dynamic Study Modules:** Work through adaptive study modules on your computer, tablet, or mobile device.
- **Simulations:** Practise decision-making in simulated marketing environments.

## REVIEW QUESTIONS

1. What are the external environmental factors that impact marketing? (LO1)
2. In what way do the following economic variables influence an organization's outlook and marketing activities: trends in the gross domestic product, interest rates, and the value of the Canadian dollar? (LO2)
3. What are the basic components of the following markets: monopoly, oligopoly, monopolistic competition, pure competition? Identify an example of each. (LO3)
4. What is the difference between direct competition and indirect competition? Provide an example to demonstrate the difference between the two forms of competition. (LO3)
5. How do the marketing strategies differ between a market leader and a market challenger? (LO3)
6. What are the important social and demographic trends affecting marketing? What demographic trends will become more important in the future? (LO4)
7. How are environmental factors influencing marketing strategy? (LO4)
8. How are marketers using technology to build relationships and engage with their customers? Give specific examples. (LO5)
9. What role does self-regulation play in the practise of marketing? (LO6)
10. What are some important laws governing marketing in Canada? What regulatory bodies oversee these laws? (LO6)

## DISCUSSION AND APPLICATION QUESTIONS

1. Provide some examples of companies that have a positive corporate image. What marketing activities have helped these companies achieve their image?
2. With reference to the Think Marketing box, Indigo Books and Music Inc. Transforms Itself, what trends has Indigo capitalized on and how have they influenced its marketing strategies? Do some additional research to update yourself on more recent Indigo activities and happenings before presenting your opinion.
3. Conduct some Internet-based secondary research to compile recent statistics on ethnic population trends and urban living trends. Discuss how the impact of these trends will influence the direction of future marketing activity.