University of Southern California
Marshall School of Business

BUAD 307 Marketing Fundamentals
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SUMMARY OF CLASSROOM MATERIAL

ETHICS AND SOCIAL RESPONSIBILITY

Ethical responsibilities and constraints. Businesses and people face some constraints on what can ethically be done to make money or to pursue other goals. Fraud and deception are not only morally wrong but also inhibit the efficient functioning of the economy. There are also behaviors that, even if they are not strictly illegal in a given jurisdiction, cannot be undertaken with a good conscience. There are a number of areas where an individual must consider his or her conscience to decide if a venture is acceptable. Some "paycheck advance" loan operators charge very high interest rates on small loans made in anticipation of a consumer's next paycheck. Depending on state laws, effective interest rates (interest rates plus other fees involved) may exceed 20% per *month*. In some cases, borrowers put up their automobiles as security, with many losing their only source of transportation through default. Although some consider this practice unconscionable, others assert that such loans may be the only way that a family can obtain cash to fill an immediate need. Because of costs of administration are high, these costs, when spread over a small amount, will amount to a large percentage. Further, because the customer groups in question tend to have poor credit ratings with high anticipated rates of default, rates must be high enough to cover this.

The individual, the firm, and society. Different individuals vary in their ethical convictions. Some are willing to work for the tobacco industry, for example, while others are not. Some are willing to mislead potential customers while others will normally not do this. There are, however, also broader societal and companywide values that may influence the individual business decision maker. Some religions, including Islam, disfavor the charging of interest. Although different groups differ somewhat in their interpretations of this issue, the Koran at the very least prohibits *usury*—charging excessive interest rates. There is some disagreement as to whether more modest, fair interest rates are acceptable. In cultures where the stricter interpretation applies, a firm may be unwilling to set up an interest-based financing plan for customers who cannot pay cash. The firm might, instead, charge a higher price, with no additional charge for interest. Some firms also have their own ethical stands, either implicitly or explicitly. For example, Google has the motto "Do no evil." Other firms, on the other hand, may actively encourage lies, deception, and other reprehensible behavior. Some firms elect to sell in less developed countries products that have been banned as unsafe in their own countries.

"Win-win" marketing. In some cases, it may actually be profitable for companies to do good deeds. This may be the case, for example, when a firm receives a large amount of favorable publicity for its contributions, resulting in customer goodwill and an enhanced brand value. A pharmacy chain, for example, might pay for charitable good to develop information about treating diabetes. The chain could then make this information on its web site, paying for bandwidth and other hosting expenses that may be considerably less than the value of the positive publicity received.

“Sponsored Fundraising.” Non-profit groups often spend a large proportion of the money they take in on fundraising. This is problematic both because of the inefficiency of the process and the loss of potential proceeds that result and because potential donors who learn about or suspect high fundraising expenses may be less likely to donor. This is an especially critical issue now that information on fundraising overhead for different organizations is readily available on the Internet.

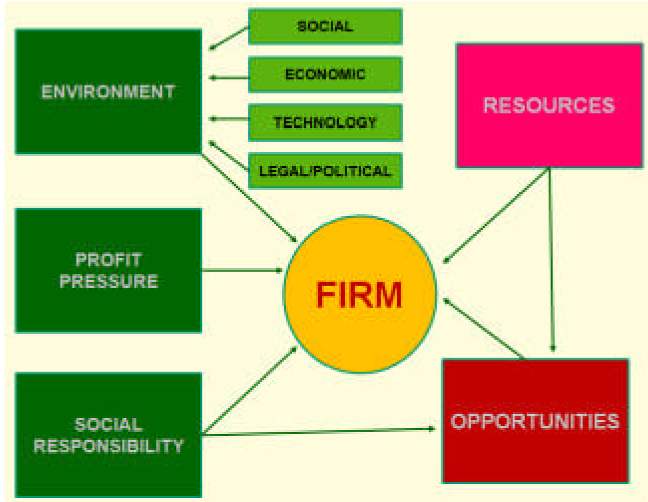
An alternative approach to fundraising that does not currently appear to be much in use is the idea of “sponsored” fundraising. The idea here is that some firm might volunteer to send out fundraising appeals on behalf of the organization. For example, Microsoft might volunteer to send out letters asking people to donate to the American Red Cross. This may be a very cost effective method of promotion for the firm since the sponsor would benefit from both the positive publicity for its involvement and from the greater attention that would likely be given a fundraising appeal for a group of special interest than would be given to an ordinary advertisement or direct mail piece advertising the sponsor in a traditional way.

One issue that comes up is the potential match between the sponsor and sponsee organization. This may or may not be a critical issue since respondents are selected for the solicitation based on their predicted interest in the organization. Microsoft—directly or indirectly through the Bill and Melinda Gates Foundation—has been credited with a large number of charitable ventures and has the Congressional Black Caucus as one of its greatest supporters. In many cases, firms might volunteer for this fundraising effort in large part because of the spear heading efforts of high level executives whose families are affected by autism.

Commercial Comedy. Another win-win deal potential between industry and non-profit groups involves the idea of *commercial comedy*. Many non-profit groups are interested in finding low cost, high quality entertainment for fundraising events. After all, money spent on buying entertainment reduces the net proceeds available for the organization’s program. Firms, on the other hand, have difficulty getting current and potential customers to give attention to advertising in traditional media. If firms were able to create some high quality entertainment involving their mascotss—e.g., the Energizer Bunny, the Pillsbury Doughboy, and the AFLAC Duck—the audience at a fundraising event would give attention for an extended period of time. Good will would also be generated, and it is likely that the act would receive considerable media coverage.

THE MARKETING ENVIRONMENT

Elements of the environment. The marketing *environment* involves factors that, for the most part, are beyond the control of the company. Thus, the company must *adapt* to these factors. It is important to observe how the environment changes so that a firm can adapt its strategies appropriately.



Consider these environmental forces:

- *Competition*: Competitors often "creep" in and threaten to take away markets from firms. For example, Japanese auto manufacturers became a serious threat to American car makers in the late 1970s and early 1980s. Similarly, the Lotus Corporation, maker of one of the first commercially successful spreadsheets, soon faced competition from other software firms. Note that while competition may be frustrating for the firm, it is good for consumers. (In fact, we will come back to this point when we consider the *legal* environment).Note that competition today is increasingly global in scope. It is important to recognize that competition can happen at different "levels." At the brand level, two firms compete in providing a very similar product or service. Coca Cola and Pepsi, for example, compete for the cola drink market, and United and American Airlines compete for the passenger air transportation market. Firms also face less direct—but frequently very serious—competition at the product level. For example, cola drinks compete against bottled water. Products or services can serve as substitutes for each other even though they are very different in form. Teleconferencing facilities, for example, are very different from airline passenger transportation, but both can "bring together" people for a "meeting." At the budget level, different products or services provide very different benefits, but buyers have to make choices as to what they will buy when they cannot afford—or are unwilling to spend on—both. For example, a family may decide between buying a new car or a high definition television set. The family may also have to choose between going on a foreign vacation or remodeling its kitchen. Firms, too, may have to make choices. The firm has the cash flow either to remodel its offices or install a more energy efficient climate control system; or the firm can choose either to invest in new product development or in a promotional campaign to increase awareness of its brand among consumers.

- *Culture*: The culture of a country or region involves not just behaviors but also values, expectations, and perceptions in the World. Firms operating in the U.S. will tend to face customers who will value individuality more than is the case in certain other countries. The culture of a country may also impact the extent to which status differences among individuals are emphasized or deemphasized. There is also some evidenced that there are differences in the attributions made for certain medical conditions.

- *Economics*. Two economic forces strongly affect firms and their customers:
  - o *Economic Cycles*. Some firms in particular are extremely vulnerable to changes in the economy. Consumers tend to put off buying a new car, going out to eat, or building new homes in bad times. In contrast, in good times, firms serving those needs may have difficulty keeping up with demand. One important point to realize is that different industries are affected to different degrees by changes in the economy. Although families can cut down on the quality of the food they buy—going with lower priced brands, for example—there are limits to the savings that can be made without greatly affecting the living standard of the family. On the other hand, it is often much easier to put off the purchase of a new car for a year or hold off on remodeling the family home. If need be, firms can keep the current computers—even though they are getting a bit slow—when sales are down. The economy goes through cycles. In the late 1990s, the U.S. economy was quite strong, and many luxury goods were sold. Currently, the economy fluctuates between increasing strength, stagnation, or slight decline. Many firms face consequences of economic downturns. Car makers, for example, have seen declining profit margins (and even losses) as they have had to cut prices and offer low interest rates on financing. Generally, in good economic times, there is a great deal of demand, but this introduces a fear of possible inflation. In the U.S., the Federal Reserve will then try to prevent the economy from "overheating." This is usually done by raising interest rates. This makes businesses less willing to invest, and as a result, people tend to make less money. During a recession, unemployment tends to rise, causing consumers to spend less. This may result in a "bad circle," with more people losing their jobs due to lowered demands. Some businesses, however, may take this opportunity to invest in growth now that things can be bought more cheaply.
  - o *Inflation*. Over time, most economies experience some level of inflation. Therefore, it is useful to explicitly state whether a reference to money over time involves the actual dollar (or other currency) amount exchanged at any point (e.g., one dollar spent in 1960 and one dollar in 2007) or an "inflation adjusted" figure that "anchors" a given amount of money to the value of that money at some point in time. Suppose, for example, that cumulative inflation between 1960 and 2007 has been 1,000%--that is, on the average, it costs ten times as much to buy the same thing in 2007 as it did 47 years earlier. If the cumulative inflation between 1960 and 1984 had been 500%, we could talk about one 1984 dollar being worth fifty 1960 cents or two 2007 dollars. It is important to note that inflation is uneven. Some goods and services—such as health care and college tuition—are currently increasing in cost much higher than the average rate of inflation. Prices of computers, actually decline both in absolute numbers (e.g., an average computer cost $1,000 one year and then goes for $800 two years later) and in terms of the value for money paid once an adjustment has been made for the improvement in quality. That is, two years later, the computer has not only declined in price by 20%, but it may also be 30% better (based on an index of speed and other performance factors). In that case, then, there has actually been, over the period, a net deflation of 38.5% for the category.
- *Political*. Businesses are very vulnerable to changes in the political situation. For example, because consumer groups lobbied Congress, more stringent rules

were made on the terms of car leases. The tobacco industry is currently the target of much negative attention from government and public interest groups. Currently, the desire to avoid aiding the enemy may result in laws that make it more difficult for American firms to export goods to other countries. Many industries have a strong economic interest in policies that benefit the industry may have a negative impact on the nation as a whole but enhance profits for the industry. For example, regulations that limit the amount of sugar that can be imported into the United States is estimated to cost each American approximately $10.00 a year. The total increase in profits to the sugar industry is difficult to estimate because many of the large producers of refined sugar are privately held corporations, but it is likely that the net gain to the industry is as much as the roughly $3 billion lost by Americans a whole. However, the interests of the industry are much more concentrated. The industry can rally its stockholders, unions and employees, and suppliers (e.g., fertilizer manufacturers and manufacturers of sugar cane processing equipment) together to lobby for their special interests. In turn, the industry can join forces with other agricultural interests which each support each other's programs.

- *Legal.* Firms are very vulnerable to changing laws and changing interpretations by the courts. Firms in the U.S. are very vulnerable to lawsuits. McDonald's, for example, is currently being sued by people who claim that eating the chain's hamburgers caused them to get fat. Firms are significantly limited in what they can do by various laws—some laws, for example, require that disclosures be made to consumers on the effective interest rates they pay on products bought on installment. A particularly interesting group of laws relate to antitrust. These laws basically exist to promote fair competition among firms. We will consider such laws when we cover pricing later in the term.
- *Technological*. Changes in technology may significantly influence the demand for a product. For example, the advent of the fax machine was bad news for Federal Express. The Internet is a major threat to travel agents. Many record stores have been wiped out of business by the trend toward downloading songs (or illegally "ripping" songs from friends' CDs—an act to which even the President of the United States has confessed). Although technological change eliminates or at least greatly diminishes some markets, it creates opportunities for others. For example, although Federal Express has lost a considerable amount of business from documents that can now be faxed or sent by the Internet rather than having to be physically shipped, there has been a large increase in demand for packages to be delivered overnight or "second day air." Just-in-time manufacturing techniques, in addition to online sales, have dramatically increased the market for such shipments. Online sites such as eBay now makes it possible to sell specialty products that, in the old days, would have been difficult to distribute. Although it has been possible for more than a hundred years to sell merchandise by catalog, buyers of these specialty products often had no easy access to the catalogs.
- Demographics: Demographics involves "statistical" characteristics of people such as age, gender, occupation, income level, area of residence, education, and ethnicity. Fewer babies today are being born, resulting in a decreased demand for baby foods. More women work outside the home today, so there is a greater demand for prepared foods. There are more unmarried singles today. This provides opportunities for some firms (e.g., fast food restaurants) but creates problems for others (e.g., manufacturers of high quality furniture that many people put off buying until marriage). Today, there are more "blended"

families that result as parents remarry after divorce. These families are often strapped for money but may require “duplicate” items for children at each parent’s residence.

- *Social*: Changes in customs, values, and lifestyles affect demand for products. Today, for example, there is an increasing environmental awareness and commitment to buying “green” products even if these are more expensive.