The External Environment: Social and Technological Forces

CHAPTER 4

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Chapter Outline

Social Forces

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Learning Objectives

1. Explain how industries are affected by the third macroenvironmental force, social forces.
2. Explain how industries are affected by the fourth macroenvironmental force, technological forces.
3. Identify the five strategic dimensions of the internet.
4. Define and discuss the importance of environmental scanning.

The previous chapter discussed two components of the external environment, political-legal and economic forces. This chapter continues our examination of external influences on the industry by addressing the other two elements of the PEST (political-legal, economic, social, and technological) analysis, social and technological forces.

Each external force embodies many vital issues that vary across industries. Some are specific to a single force, whereas others are related to multiple forces. Automobile safety, for example, has political-legal (e.g., legislation designating safety standards), social (e.g., consumer demands for safe vehicles), and technological (e.g., innovations that may improve safety) dimensions. In such situations, we should understand how the various forces combine to influence industry behavior and, ultimately, firm performance.

Social Forces

Societal values Concepts and beliefs that members of a society tend to hold in high esteem.

Social forces include societal values, trends, traditions, and religious practices. **Societal values** are concepts and beliefs that members of a society tend to hold in high esteem. In the United States, traditional societal values include individual freedom, fairness, free markets, free speech, and equality of opportunity. In a business sense, these values translate into an emphasis on entrepreneurship and the belief that one's success is limited only by one's ambition, energy, and ability. These values have attracted millions of immigrants to the United States and Canada during the past centuries in search of religious, economic, and political freedom, resulting in a business environment that is more vibrant than in countries that do not hold similar values.[1] Not all Americans cherish these values, but they are influential for most citizens.

Cultural events and holidays can affect industries in substantial ways. Americans consume an average of 46 slices of pizza annually, but demand spikes at certain times during the week, especially on Saturday nights. Historically, Super Bowl Sunday, New Year's Eve, Halloween, and the night before Thanksgiving comprise the four most profitable days for pizza takeout and delivery. Still, suppliers and related industries feel the effects as well. The Georgia-based Rock-Tenn Company makes about 3 million pizza boxes to supply about half of the demand, including boxes for Domino's, Papa John's, and Little Caesars. Rock-Tenn produced about 400 boxes a minute around the clock to prepare for the 2015 Super Bowl.[2] Rock-Tenn merged with Mead-West-Vaco later in 2015. The combined firm, WestRock, is a global leader in the paper and packing industry and is still the largest producer of pizza boxes in the United States.

Religious beliefs and practices contribute to core values and influence accepted business activity. Even embedded cultural forces like religion can shift over time. Christianity, for example, has influenced social and economic development in the United States throughout the nation's history. In recent years, however, the number of American adults who depart from the faith of their upbringing has increased. According to the Pew Research Center, about 20% of Americans identify as Roman Catholic. Although this percentage has remained stable over the years, one-third of adults raised as Catholics left the faith, and their numbers have been replaced by Catholic Latino immigrants. Protestants have declined from about two-thirds of the population just two decades ago to about 40%. The number of Americans reporting no religious affiliation has increased to above 20%.[3] Although the influence of religion in U.S. life has diminished in the last few decades, there is a more substantial shift across the Atlantic. Most Western Europeans affiliate with Christianity, but most self-identified Christians are "nonpracticing" and do not profess to believe in God, as revealed in the Bible. In the United Kingdom, nonpracticing Christians outnumber practicing Christians by 55% to 18%.[4]

Religion is also a dominant force in Israel. About 75% of Israelis are Jews, followed by 18% Muslims and 2% Christians.[5] The percentages of both conservative, ultraorthodox Jews and non-Jews have increased steadily since 2009, resulting in stark public policy disagreements. In the summer of 2019, the city council of Tel Aviv suburb Ramat Gan approved bus service on the Jewish Sabbath amid stringent opposition from Israelis who contend that service on Friday evening violates the Bible-ordained day of rest. The mayor of Ramat Gan, Carmel Shama-Hocohen, even received death threats as a result. Many businesses—including those connected to the lucrative tourist industry—remain closed from nightfall on Friday to sundown on Saturday each week.[6] The influence of religion on society and business in Israel is complicated, as the Hamas terror attacks of October 2023 and subsequent Israel–Hamas war illustrate.

Firms can encounter difficulties when expanding into nations with different core values. X (formerly Twitter) illustrates the complexities of the globe's multiple perspectives on permissible speech. The company enjoys almost free rein in the United States, where free speech is treasured. X has changed a lot since Elon Musk acquired the company in 2022. X has not accepted China's mandated censorship and is not officially available there.[7] The National Basketball Association (NBA) discovered that different perspectives on free speech could threaten a business relationship when Houston Rockets General

Manager Daryl Morey tweeted support for Hong Kong protesters against the Chinese government in 2019. The NBA case is addressed in greater detail in Chapter 5.

Convenience is a core value for American consumers. The average Walmart Supercenter shopper spends 21 minutes in the store but finds only 7 of the 10 items on the shopping list. Big boxes like Walmart and Home Depot historically focused on more products and larger stores, but the rise of Amazon and other online retailers has prompted a change in course. Although still known primarily as a brick-and-mortar store, Walmart has responded by offering online ordering, as well as ship-to-store and grocery-pickup options.[8]

The push for convenience can have a downside, however. Laundry detergent capsules like Procter & Gamble's (P&G's) Tide Pods are popular with convenience-minded adults—and small children. Shortly after their introduction, sales of concentrated laundry packets increased 30% from 2013 to 2014, totaling 12% in a market segment dominated by P&G.[9] The company introduced opaque containers that are more difficult to open and carry warning labels for its Tide Pods in 2013, but pods produced by P&G and others resulted in an average of 32 reported accidental poisonings per month for children under six years of age in 2014 and 30 cases per month in 2015. U.S. poison centers logged nearly 73,000 cases of exposure to contents of laundry packets between 2012 and 2017, most involving children under six years old. Nonetheless, sales of pods continue to increase.[10]

U.S. restaurants expanded rapidly as the percentage of employed women increased from 33% in 1948 to around 60% in the 2000s and 70% by the mid-2020s. With higher incomes and less disposable time, families with two working adults instead of one tend to eat out more often. The number of restaurant meals purchased per person annually peaked at around 210 in the early 2010s, a substantial increase from decades earlier.[11] Sparked by COVID-19 lockdowns, the global online food-delivery market increased to $190 billion in 2021 and continues to grow.[12]

Increases in costs and inconveniences associated with health care have also created opportunities for retailers. Since the mid-2000s, Walmart, Target, CVS, and other pharmacies have launched medical clinics in select stores, whereby consumers can pay between $25 and $60 and receive fast access to essential medical services without an appointment. Clinics are staffed with nurse practitioners who can treat patients and write prescriptions in most states.[13] CVS continues to expand aggressively in this category. In 2023, the company acquired Signify Health, a company that brings clinicians into homes.[14]

> Men and women tend to shop differently. Learn more about these distinctions in online environments at https://www.junglescout.com/blog/men-vs-women-shopping/.

Even casket makers can be affected by social forces. The preference for cremation has increased steadily since 2000, threatening the casket industry. U.S. casket sales peaked at 1.9 million in 2000, declined to 1.7 million in 2009, and increased to about 1.8 million in 2019. As a result, casket makers have begun to emphasize less expensive models, move into the cremation business, and even invest in unrelated ventures altogether. In one diversification effort, Hillenbrand, parent of Batesville Casket, spent $435 million in 2010 to acquire K-Tron International, a factory equipment manufacturer.[15] Retailers like Amazon and Costco currently sell caskets.

Social forces include societal trends, including demographic changes that can dramatically affect business opportunities. The U.S. baby boom, lasting from 1945 through the mid-1960s, initially provided opportunities for businesses such as clothing, baby apparel, diaper manufacturers, private schools, and candy and snack makers. Later, as the baby boomers entered the job market, universities and businesses were blessed with many applicants. As they have continued to age, the baby boomers have begun shopping at home more and are spending heavily on health-care needs, leisure activities, and vacation alternatives.[16] Further, this population segment may not be as brand loyal as previous generations of Americans and represents a key group of purchasers of goods and services on the internet.[17] More recently, birth-rate declines and aging populations in the United States have triggered a drop in baby diaper sales and a 20% increase in sales of adult incontinence products. P&G departed the adult market in the early 2000s but returned in 2014 amid high growth potential.[18]

Ethnic minorities account for over one-half of the children born in the United States. The proportion exceeds two-thirds in Hawaii, New Mexico, California, Texas, and the District of Columbia.[19] The number of Hispanics in the United States surged from 35.3 million in 2000 to about 60 million in 2020, about 20% of the population. The number of Hispanics in the United States is expected to exceed 100 million in 2050, 26% of the total population.[20] Hispanics tend to spend more on cleaning and beauty products and tend to display more brand loyalty than the average U.S. consumer. Firms have taken notice, tailoring advertisements to Hispanic audiences and providing English and Spanish on their product labels. Consumer products firm Colgate-Palmolive has leveraged its strength in Latin American markets to establish a dominant position in the United States. Procter & Gamble—using insights from its team of researchers—designs products specifically to attract Latino consumers. The company has modified many of its products for this growing market and employs many Latino celebrities.[21]

U.S. companies are pursuing the growing Hispanic and immigrant populations, not only with Spanish advertisements and websites but also with products and services tailored to cultural differences. Kraft and Anheuser-Busch InBev (AB InBev) have invested large sums in Spanish advertising campaigns. Some financial institutions began offering checking accounts and mortgages to immigrants lacking documentation in the 2000s. In 2007, Bank of America began offering credit cards to customers without Social Security numbers—typically illegal immigrants—a decision based on what executives viewed as a sizeable, untapped group of potential customers. Other banks have followed suit.[22]

Targeting multiple cultural groups can be a challenge. Pizza Patrón is a 100-unit Hispanic-focused restaurant chain based in Dallas. Featuring toppings such as chorizo sausage and jalapeno peppers, Pizza Patrón has targeted Hispanic American consumers since its inception in 1986, billing itself as the top Latin pizza brand. The company shifted its emphasis in the early 2010s to a bilingual, bicultural audience. As brand director Andrew Gamm noted, "Hispanics born in the US have one foot in each culture. They are very into adopting American culture without fully letting go of their Hispanic roots. In [the past], we focused on these peoples' parents."[23]

Social forces often comingle with forces in other areas of the external environment. For example, the global recession of the late 2000s and early 2010s—and economic force—spawned a greater emphasis on frugality. As cautious consumers spent less, retailers like Walmart and Home Depot responded by cutting costs by reducing work hours and inventories. Lower costs often translate into lower prices, better positioning these retailers to compete for consumer spending.[24]

The U.S. adult smoking rate declined from 42% in 1965 to less than 14% in 2022. Smoking rates are higher in lesbian, gay, bisexual, and transgender (LGBT) groups, 27.7% versus 17.3% among heterosexuals. The demand for menthol products has increased, with African American smokers choosing them over other products about 80% of the time. Smoking rates remain highest among groups with lower levels of income and education. The demand for vaping products and electronic cigarettes (e-cigs) is also on the rise.[25] Although smoking and overall tobacco use among high school students have declined, the use of cigars, hookahs, and electronic cigarettes has been increasing. During the past decade, many U.S. communities raised the legal age for buying cigarettes and other tobacco products from 18 to 21.[26]

Responding to changing cigarette consumption patterns, CVS removed all its tobacco products from the shelves in 2013, foregoing an estimated $2 billion in annual revenue from the sales of cigarettes and related products. Nonetheless, as CVS transitions from a pharmacy to a broad-based health-care provider that includes in-store clinics, eliminating tobacco improved its image and facilitated stronger partnerships with hospitals, insurance companies, and physician groups.[27]

Learn more about the beef industry's defense against the complaints regarding LFTB in 2012. The top-eight myths of "pink slime" are presented at https://beefproductsinc.wordpress.com/2012/03/15/top-7-myths-of-pink-slime/.

The internet has also facilitated the business use of social media such as Facebook (Meta) and X. Consumers use social media to rapidly exchange information and ideas about products and services. Firms and industries can benefit when a video featuring a product "goes viral" on a site such as YouTube. Alternatively, they can suffer when troublesome information—accurate or not—spreads quickly among customers. Social media can augment traditional news reporting in ways that threaten companies or entire industries. Even if an erroneous news story is corrected or retracted, the social media onslaught that follows creates a life of its own and can be very difficult to unravel (see Strategy at Work 4-1).

Strategy at Work 4-1

Lean Finely Textured Beef or Pink Slime?[28]

In 2012, a month-long American Broadcasting Company (ABC) campaign targeted the lean finely textured beef (LFTB) that many meat processors added to their products. Concern about LFTB—termed "pink slime" by detractors—spread rapidly with the help of social media. LFTB refers to trimmings of lean beef separated from fat through an innovative process that raises the temperature to about 100 degrees Fahrenheit. Some reports erroneously tagged LFTB as an additive unfit for human consumption. Kroger, Safeway, Supervalu, and other U.S. grocers responded by discontinuing products with LFTB, placing an immediate strain on meat processors.[29] AFA Foods did not survive and filed for bankruptcy in 2012.

The two largest producers of finely textured beef—Beef Products, Inc. (BPI) and Cargill, Inc.—were also casualties, closing plants and laying off hundreds of workers. BPI lost contracts with 72 customers in one weekend in 2012 but recovered 40 of them during the following two years when emotions tapered, beef prices rose, retailers sought cheaper trimmings, and processors found new product uses. Production at Cargill tripled during the same time but did not return entirely to pre-crisis levels.[30]

BPI eventually recovered as well, but not for several years. BPI sued ABC for its reporting and settled in 2017. BPI won another victory in 2018 when the U.S. Department of Agriculture's Food Safety & Inspection Service (FSIS) responded to a BPI request and issued a statement permitting the company to label LFTB as "ground beef."[31]

Buyer behavior is an important consideration, especially for retailers. Traditional department stores, such as Macy's, Nordstrom, and Dillard's, struggled in the late 1990s and early 2000s when consumer buying habits favored discounters such as Target and Walmart. They struggled again in the late 2010s and early 2020s. COVID-19 exacerbated the demise of shopping malls by encouraging (or requiring) people to shop from home. Some retailers (e.g., Sears) went bankrupt, whereas others departed as their leases expired. For example, Crystal Mall in Waterford, Connecticut, was valued at $153 million in 2012 but sold for less than $10 million in foreclosure in 2023. Some vacant malls are being repurposed as housing, bowling alleys, hockey rinks, or churches.[32] Many department stores have responded by streamlining their operations to improve service and modifying product lines to target specific consumer groups.

Many traditional retailers struggle to keep pace with their online rivals, most of which translate their lower overhead costs into lower prices. These retailers discovered that many consumers were less likely to frequent a traditional retailer unless it also provided some form of entertainment value. Bass Pro Shops, for example, increased its store traffic substantially by including such amenities as a large fish tank, live bats, and even a rock-climbing wall. Mall developers began to include "activity zones" in their facilities for such attractions as skating and fitness centers. Many enclosed shopping malls have added restaurants, salons, fitness clubs, and play areas to lure shoppers back from the internet and strip malls. Playtime Inc. has installed play areas in shopping malls throughout the United States. Replete with Looney Tunes characters and soft climbing structures, these areas cost between $50,000 and $500,000 but attract parents who have migrated steadily from shopping malls to more convenient retailers during the past decade.[33]

Whereas shopping mall sales have declined, sales have increased at the world's airport terminals, where mid- to high-end travelers with time on their hands shop for alcohol, cosmetics, purses, and other luxury goods. The global sales of travel-retail channels increased from $69 billion in 2017 to $76 billion in 2018. It plummeted during the pandemic but recovered to $56 billion in 2022. The average person flies three to four times annually and spends about 72 minutes—what Bacardi calls the "golden hour"—waiting between security and the gate.[34]

Although virtually nonexistent a decade ago, online tracking—including user-tailored advertising—has become widespread. The online advertising industry targets ads to consumers based on their web activity. For example, immediately after a user visits a site, details are auctioned automatically via computer algorithms to the highest bidder. As a result, a user browsing automobile information might see ads for new cars during the next few days.[35] Annual industry revenues were estimated at $233 billion and are expected to reach $390 billion by 2028.[36]

Airport Shopping Creates Opportunities for Retailers

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Trends toward socially responsible manufacturing and waste-management practices and concerns for saving private wetlands from business development have intensified during the past three decades, including a greater emphasis on consumer recycling and the production of recyclable products.[37] According to the UK-based Ellen MacArthur Foundation, the weight of ocean plastic will rival that of fish by 2050. Eight million tons of plastic leak into the oceans each year due to poor waste-management systems, amounting to about $10 billion worth of packaging materials. Nonprofits work with firms like General Motors, HP, and Dell Technologies to reclaim and reuse some of the waste. Adidas introduced a sneaker made partially from discarded fishing nets in 2015.[38]

Some leisure travelers demand more economically friendly vacations and seek providers that limit carbon emissions or even provide a “carbon-neutral” vacation.[39] However, they are often unwilling to pay the higher prices typically associated with environmentally friendly products and services.[40]

The tragic events of September 11, 2001, prompted social changes that still affect many industries. Concerns over air travel safety have greatly influenced everything from routes to the marketing strategies of major airlines. Americans have become more willing to accept inconveniences when safety and security are on the line. The tragedy made investment and personal life strategies more conservative and reflective.[41] Even churches took notice, as the 25% increase in national attendance immediately following the events of September 11 had all but disappeared by early 2002.[42]

The COVID-19 pandemic and the social unrest affected many U.S. industries. Demand for firearms increased in March during government-ordered pandemic lockdowns. It spiked again following the May 25 death of George Floyd, as calls to defund police departments prompted many Americans to purchase guns at a record pace. The Federal Bureau of Investigation (FBI) reported a 136% increase in background checks in June compared to the same month in the previous year.[43]

The effects of the pandemic varied across, and sometimes within, industries. For example, Home Depot enjoyed a 20% increase in revenue in 2020 as Americans renovated their homes. Meanwhile, Macy’s suffered a 30% decrease as consumers stuck at home spent less on apparel.[44] Buoyed by government borrowing and direct payments to consumers, U.S. households added $13.5 trillion in wealth in 2020, half of which was attributed to gains in the stock market.[45] Between May and June 2021, Uber and Lyft provided free transportation to vaccination sites as part of a partnership with the U.S. government.[46]

When many restaurants closed or limited their service to takeout during the pandemic, fishermen and seafood processors felt the pain. Although U.S. consumers purchased more seafood through grocery stores and meal-kit companies, the increase was not enough to compensate for restaurant sales declines, where about 70% of seafood is consumed. Many fishermen docked vessels and rerouted what they could to freezers, sometimes destroying the rest.[47]

Many Americans turned to streaming services to pass the time during the pandemic. In July 2022, the number of streaming subscribers surpassed the number of cable subscribers for the first time. Many streamers follow certain shows or events. The coverage provided by Netflix, HBO Max (now Max), Disney, Hulu, and other providers overlaps considerably, allowing consumers to leverage promotional offers without losing access to their favorite programming. About 20% of premium streaming subscribers canceled three or more services between mid-2020 and mid-2022, raising the average monthly customer defections to 5.5% by July 2022.[48]

Since the pandemic, many Americans have been ending their days earlier. According to Yelp, restaurants seated 10% of their diners between 2:00 and 5:00 p.m. in 2023, up from 5% in 2019. According to Uber, trips to restaurants increased by 10% in the 4:00 hour and declined by 9% in the 8:00 hour. Showtimes at movies on Broadway are earlier. Shoppers are returning home earlier as well. The explanations for this shift are complicated. Many restaurants began closing earlier to address labor shortages, and consumers became more concerned about late-night crime.[49]

Social forces also affect the business of professional sports. Americans noticed when San Francisco 49ers' quarterback Colin Kaepernick sat during the national anthem before a preseason game. Whereas some fans viewed Kaepernick's social protest as free speech, others—including veterans—were deeply offended. Kaepernick's actions spread to other players, deepening the divide. NFL viewership declined from 2015 to 2017 but recovered some in the following years. NFL executive Troy Vincent attributed the modest turnaround to the quality of play; a new crop of young stars; and a reduction in off-field distractions, such as player protests of the national anthem.[50]

The following two subsections extend discussions in the previous chapter by examining changes in two critical social forces, food consumption and automobiles. These examples illustrate the richness and the complexity of social change and how it affects firms. The final subsection elaborates on global concerns.

Case 1: Food Consumption

Changes in eating habits have affected many industries. Since its founding in 1980, Whole Foods Market has grown to over 500 stores and $16 billion in annual sales to become the largest organic and natural foods grocer in the United States.[51] Chief Executive Officer (CEO) John Mackey has experienced some challenges, however. During the economic

Fast Food

Burgers and fries remain staples in the United States, but eating habits are changing.

Source: Maria Medvedeva/Shutterstock.com.

downturn of the late 2000s, consumers were unwilling to spend more on organic foods. At the same time, mainstream grocers like Safeway and Supervalu began to expand their private-label brands in both traditional and organic arenas. Expanding "generic" product offerings tends to trim margins across the board, which is not beneficial to high-end retailers like Whole Foods.[52]

Food producers understand the value of staying abreast of changes in consumer tastes, especially regarding diet fads and health trends. Whereas food sales have grown steadily, transactions related to diet fads rise and fall rapidly, rewarding firms with a suitable array of products at the right time.[53] Consider the decline in soda consumption. PepsiCo launched a colorful seltzer-water brand called Bubly. Hoping to retain soda drinkers with more creative sugar-free products, Coca-Cola has developed new flavors of Diet Coke, a brand whose sales declined from 10.2% to 7.8% between 2008 and 2022. Saddled with stagnant brands like 7 Up and A&W Root Beer, Dr Pepper merged with Keurig Green Mountain, a producer of single-serve coffee pods.[54]

American consumers have been sending a mixed message of the celery stick and the double-chocolate peanut swirl for the past two decades, further complicating the task of identifying demand patterns for restaurants and packaged food producers. Chocolatier Hershey has diversified its product offerings in response to the healthy eating trend. Faced with waning demand for chocolate, Hershey launched Krave protein bars—made from dried meats, fruit, quinoa, and other healthier ingredients—in late 2016.[55] Meanwhile, bacon's popularity in the United States has increased steadily. As Arlan Suderman, chief commodities economist at INTL FCStone, put it, "The consumer has simply woken up to the joy of having bacon on more and more things."[56]

Consider changes in the fast-food industry. In the late 1990s and early 2000s, fast-food consumers shifted from traditional giants such as Burger King, Pizza Hut, and Taco Bell to healthier alternatives such as Subway and Panera Bread. Traditionally synonymous with hamburgers, McDonald's has responded with more salads, expanded advertising campaigns, a rotation of temporary items, revamped dollar menus, and even credit card service. However, the company's "fried" image remains intact, and sales increases have been difficult to muster.[57] In early 2018, the fast-food giant began using fresh beef instead of frozen patties in its quarter-pound hamburgers. This move placated consumers seeking to reduce consumption of processed foods but complicated a supply chain that supplies beef to 14,000 restaurants in the United States.[58]

Meanwhile, the proliferation of highly effective weight-loss glucagon-like peptide (GLP) drugs is affecting food-related and other industries. The so-called Ozempic effect could reduce long-term demand for snack food and fuel costs for airlines because of lower average passenger weights.[59] Nestlé, General Mills, and other food companies are creating companion products that could help Ozempic patients at risk of nutritional declines or muscle atrophy while taking the drug or help them avoid weight gain after they finish taking it.[60]

During the past decade, many fast-food restaurants started "supersizing" their meal combinations by adding extra fries and larger drinks while at the same time expanding healthier alternatives, such as grilled chicken sandwiches and salads.[61] McDonald's has tried to shed its supersize image since the 2000s by abandoning supersize portions; including apples with Happy Meals; and cooking French fries in a healthier canola oil blend, a 2008 decision accompanied by little fanfare. McDonald's has also added snack wraps, oatmeal, and fruit smoothies. Still, none of these healthier alternatives has achieved the status of the Big Mac, Chicken McNuggets, or McGriddles. Salads represent a small percentage of sales at McDonald's. Rivals Wendy's and Burger King have experienced similar results, scoring with products high in fat, calories, and sodium like the Pretzel Bacon Cheeseburger and Doritos Locos Tacos. Unclear consumer demand continues to create an ongoing strategic challenge for McDonald's. As analyst Howard Penney put it, "[McDonald's is] focused on trying to be all things to all people . . . They've gone so far afield from their core menu that they're not really resonating with anyone. McDonald's is never going to be perceived as healthy, so for them to spend too much time on healthy items doesn't make a lot of sense to me."[62]

The notion that health factors should be regulatory considerations increased with the election of President Obama. In the early 2010s, First Lady Michelle Obama spearheaded a campaign to promote healthy eating habits, particularly among children.[63] The U.S. government has also modified its dietary recommendations. But not all fast-food restaurants have responded like McDonald's. With the success and longevity of products like the Monster Thickburger at Hardee's, with 97 fat grams, 53 grams of carbohydrates, and 1,400 calories, the extent to which many American consumers consider health factors when purchasing fast food is unclear.[64]

Learn more about the U.S. Department of Agriculture's (USDA) dietary recommendations and the agency's MyPlate promotion at myplate.gov.

Food-consumption patterns often vary across borders. In China, food is traditionally something to be savored, not rushed. KFC (Yum Brands) opened its first drive-through in China in 2002 and added a second in 2005. McDonald's opened its first drive-through in China in 2005. Unfortunately, its Chinese customers were unfamiliar with the drive-through and could not figure out how to use it. The company responded with flyers illustrating the process and employees stationed in the parking lots to direct customers to the drive-through lane.[65] However, eating patterns in China are changing. Today, over one-half of Chinese individuals eat takeout at least twice weekly.[66]

McDonald's partnered the following year with Sinopec, China's largest gasoline retailer, to build additional units in Sinopec service stations. With the faster pace of Chinese life and more cars on the road, McDonald's banked on acceptance of the concept (in Chinese, *De Lai Su*, which translates into "come and get it fast"). The company's emphasis on takeout and drive-through service in China reflects an increased effort to tailor its offerings to local tastes, an approach common at rivals like KFC and Pizza Hut. Chicken outsells beef at McDonald's in China, where the fast-food giant blends traditional favorites like Big Macs and fries with local favorites like corn, spicy chicken wings, and triangle wraps—chicken or beef mixed with rice and vegetables in a tortilla-type wrapper.[67]

While McDonald's continues to expand its global reach, it has become a part of the conversation about increased obesity in the United States, the United Kingdom, and other developed nations. Critics argue that sedentary lifestyles and unhealthy foods have led to increases in diabetes, heart disease, and other medical problems associated with obesity. Many contend that food processors and fast-food restaurants such as McDonald's have contributed to this phenomenon by encouraging individuals to consume more unhealthy foods.[68] McDonald's, Panera Bread, Starbucks, and many large restaurant chains in the United States now post calorie counts for their products on their menu boards. Research suggests that many consumers make different food choices when nutrition information is available when they order. One study found that Starbucks customers ordered food with 6% fewer calories per transaction when the information was available. Americans consume about a third of their calories from restaurants, and that fraction is on the rise.[69]

Many food producers have followed suit and expanded their options for health-conscious consumers. Grocery stores contain a wider selection of "healthy" foods today than ever before.[70] Sales of bottled water in the United States surpassed those of soft drinks in 2016 in a nation whose tap water is safe to consume. Between 2000 and 2022, the per-capita consumption of bottled water increased from 17 to 46 gallons, whereas soda consumption declined from 53 to 40 gallons. Pepsi (Aquafina) and Coke (Dasani) control about 20% of the market. Rivals like Nestlé (Pure Life) and others—including many brands touting purity, minerals, and essences—battle for the remaining 80%. Although many Americans have turned to bottled water for health concerns, many environmentalists claim the product is unnecessary and creates excessive plastic waste.[71]

Anheuser-Busch teamed up with notable Harvard epidemiologist Meir Stampfer to tout the potential medical benefits of beer consumption. Stampfer cites studies suggesting that moderate consumption of alcohol may reduce the risk of heart attack, diabetes, and other ailments. Beer's share of the overall consumption of alcoholic beverages in the United States declined in the 2000s while wine's share increased. Although Anheuser-Busch attributes some of this shift to the preference for drinks low in carbohydrates, the firm believes that a critical factor is a misconception that moderate wine consumption can be healthy, but moderate beer consumption is not.[72] However, a 2023 study of nearly 5 million people debunked the notion that one or two drinks a day may

Alcohol Consumption Patterns Are Changing

Source: Africa Studio/Shutterstock.com.

have health benefits. It concluded that no amount of alcohol consumption increases longevity. Men who consume 45 grams or more each day—about three drinks—increase their risk of dying sooner. For women, consuming over 25 grams daily increases their risk of dying sooner.[73]

A significant shift in demand for alcoholic beverages among consumers has occurred during the past two decades. Although beer consumption has increased in Poland, China, Brazil, and other countries, it has declined in the United Kingdom, and U.S. per-capita consumption fell from 83.2 liters in 2000 to 80.2 liters in 2010 and 72.8 liters in 2020. The U.S. decline is due to several factors, including health concerns, taste, and value. Beer prices in the United States have risen over 40% since 2000, compared to less than 20% for wine and spirits. Beermakers like AB InBev are attempting to reverse the decline with new products, such as an organic version of Michelob Ultra and fruit-flavored versions of Bud Light.[74] Meanwhile, many health-conscious millennials turned to alcoholic sodas ("alcopops").[75]

Many food producers and restaurants have been making their products healthier. Some market the changes aggressively in hopes of winning new customers, but others choose not to publicize cuts in salt or fat. General Mills has promoted lower sodium content in a line of Progresso soups since 2006, whereas Kraft quietly eliminated trans fats in its Oreo cookies in 2006.[76] Meanwhile, food producers in the United States have gradually shifted attention from meals to snacks. Many Americans snack frequently and skip meals.[77] PepsiCo has substantially increased its sales of healthy snacks, including baked and low-fat offerings, in the past decade.[78]

Cereal producers have discovered that many Americans eat cereal for dinner or consume it without milk as a healthier alternative to cookies or other snacks. About 20% of cereal consumption occurs outside of breakfast, with many consumers shifting away from cereal for the morning meal. About 50% of sugary cereals, including the popular Cinnamon Toast Crunch and Lucky Charms brands, are now consumed by adults, and marketers have begun to promote cereal in nonbreakfast settings.[79] With less time for breakfast, more Americans have been turning to yogurt and other frozen or refrigerated foods. The proportion of revenue at quick-service restaurants coming from breakfast has increased steadily during the past decade.[80]

Meatless alternatives are also gaining traction. Founded in 2009, Beyond Meat, Inc. (often called "Beyond") produces meatless burgers, sausage, and other products for vegans, vegetarians, and carnivores seeking healthier options. Its Beyond Burger mimics the texture, smell, and taste of ground beef and is available in about 30,000 restaurants, grocery stores, and foodservice firms, including McDonald's, Denny's, and Dunkin' Brands. Beyond's annual revenues increased rapidly to $465 million in 2021 for a gross profit of

$117 million, but its stock price declined from about $12 to $7 during 2023 as a result of inflation, rising competition, and pandemic-related shifts in demand. The company's success has sparked competition from rival Impossible Foods, Inc., as well as the development of meat alternatives from large meatpackers Tyson Foods (United States), Smithfield Foods (United States), JBS (Brazil), and Nestlé (Switzerland).[81]

Revenues at most fast-food chains plummeted when COVID-19 hit, but U.S. sales at McDonald's recovered, largely because of faster drive-throughs. During the pandemic, sales in 2020's third quarter rose almost 5% compared with the same period in 2019.[82] Food-delivery services like DoorDash, Grubhub, and Uber Eats also grew substantially during the pandemic. DoorDash was the biggest winner, more than tripling revenues between the last quarter of 2019 and the last quarter of 2020. DoorDash amassed 53% of the U.S. food-delivery market in early 2021.[83]

As more consumers in the United States and elsewhere order out for dinner, many restaurants are searching for more efficient ways to prepare and deliver the food. Location is much less critical for deliveries, prompting some restaurants to create "ghost kitchens" in struggling shopping malls, where space is often available at a fraction of the cost of eat-in locations.[84]

The COVID-19 pandemic altered demand patterns for many grocery items. The consumption of snack foods increased in the United States because Americans ate more at home, but the demand for soda declined because they ate less at restaurants and made fewer trips to convenience stores. Companies with broad product lines like PepsiCo and Coca-Cola weathered the transition well because gains in the food business covered losses in beverages.[85]

Expenditures on groceries increased by more than 40% in March 2020—when the pandemic hit the United States—as consumers stocked up on canned, frozen, and packaged foods amid COVID-19 uncertainty. Spending patterns remained 10–20% higher during the summer months when fears of supermarket shutdowns waned, but many Americans were still eating more at home.[86]

Some food items were in short supply in the United States during the pandemic, but others were not. Canned corn was scarce for several reasons. Corn is irreplaceable in many food products, but the supply of sweet corn is seasonal, and much of it is canned right after the harvest in August and September. Anticipating that COVID-19 would create a shortage, Green Giant and Del Monte (the two largest U.S. producers) pressed farmers to plant more corn, but most had already planted their crops for the year. Trucking capacity was limited during the early months of the pandemic because transportation companies rejected existing contracts for more lucrative, last-minute orders. Consumers hoarded products like canned corn, contributing to the shortages they feared. As a result, the supply of corn was limited during most of 2020. The deficiency can be attributed to multiple causes.[87]

Demand also spiked in other food categories, especially early during the pandemic. Sales of baking yeast, spiral hams, oat milk, and fresh meat alternatives increased by over 250% as consumers prepared more meals at home. Meanwhile, farmers dumped thousands of gallons of milk and destroyed eggs. They plowed under acres of crops because they could not shift products bound for restaurants into packaging appropriate for supermarkets.[88]

Social concerns can prompt both social change and regulations. Consider the case of gluten, a protein composite found in wheat, barley, and rye. Almost 1% of Americans have celiac disease, in which the ingestion of gluten impedes the absorption of nutrients. Others are concerned about the potential harmful effects of gluten as well. The number of Americans following a gluten-free diet has increased substantially during the past decade. According to a U.S. Food and Drug Administration (FDA) directive, packaged foods labeled "gluten-free" must contain fewer than 20 parts per million of gluten. Restaurants promoting "gluten-free" fare are strongly encouraged to abide by the same standard. Some chains, like California Pizza Kitchen, have elaborate procedures to prohibit contamination, but most struggle with developing products and systems to meet the growing demand.[89]

Changes in the Auto Industry

Driving habits have changed a lot over the years.

Source: Everett Collection/Shutterstock.com.

Case 2: Automobiles

Social trends have been key factors in the automobile industry. The 1990s experienced the rise of sport utility vehicles (SUVs) on the American automotive landscape. By the decade's end, SUVs were the vehicle of choice for many suburban families, and the minivan was passé. Auto manufacturers realized, however, that the new breed of SUV patrons was willing to give up some of the rugged features associated with the SUV in exchange for the additional space and softer ride associated with the minivan. As one GM executive said, "The sport utility today is kind of becoming like the minivan, a family vehicle." In early 2001, Ford responded to the shift in consumer preferences by introducing a redesigned Explorer with three rows of seats, additional safety gadgets, and a softer ride.[90] By 2003, Ford, General Motors, and Nissan had begun to shift attention away from large SUVs to the hybrid vehicles they termed "crossovers" or "active lifestyle wagons."[91] Ford executives even called 2004 "the year of the car" in anticipation of a consumer move away from SUVs, trucks, and minivans.[92]

The evolution of the SUV continued in the mid-2000s as demand for traditional SUVs like the Ford Explorer and the Chevrolet Tahoe leveled off in the United States. In 2005 and 2006, sales of "crossover" vehicles began to surpass those of SUVs in the United States. Crossovers are typically smaller and more fuel-efficient than SUVs. Still, many got wider and longer, adding features like third-row seats, more cargo space, and higher towing capacity.[93] New models in 2006 boasted designs that resembled a combination of SUV and sports car, station wagon, or minivan. Experts attributed the changes to increased interest in practicality and higher fuel prices.[94] Ford discontinued the production of minivans in 2007, and General Motors followed suit in 2008.[95]

Meanwhile, the spikes in fuel prices in the mid-2000s took a heavy toll on sales of fuel-inefficient vehicles, including SUVs. When gasoline prices in the United States approached \$3 per gallon in 2004, GM reported a monthly sales decline of 24%, and Ford sales dropped 19.5%. Meanwhile, sales at Chrysler, which is less dependent on SUVs, rose 4%. Sales at Toyota, makers of more fuel-efficient vehicles, rose 10% during the same period, led by a 23% increase in sales of the gas–electric hybrid Prius.[96] Fuel prices eventually tapered off but rose abruptly again the following year. By mid-2006, American automobile manufacturers and retailers were forced to respond with incentives worth thousands of dollars to move their less fuel-efficient vehicles from inventories.[97] Carmakers began to incorporate high-end features and a more luxury feel into their smaller, more fuel-efficient vehicles.[98] Toyota passed Ford in total revenues in 2006.[99] In 2008, Chrysler introduced its tiny, two-seat Smart Fortwo in the United States. The Smart Fortwo enjoyed some success in Europe and is only 106 inches long, 44 inches shorter than Toyota's subcompact Yaris.[100]

By 2007, Ford, GM, and Chrysler struggled to cut costs. Their attempts to extract price concessions from suppliers that the global economy had already squeezed were primarily unsuccessful.[101] Even Toyota, concerned that future demand would not justify the additional capacity the firm had been adding to the United States over the past five years, decided to scale back.[102] In 2008, U.S. gas prices spiked again, at the level of $4 per gallon, rekindling concerns about fuel efficiency. Sales of low-mileage recreational vehicles plummeted as producers like Coachmen Industries and Fleetwood Enterprises struggled to remain afloat.[103] With the economy entering a recession, Chrysler and GM warned of potential insolvency. Although gas prices dropped again to the $2 range, government assistance was required in late 2008 to stave off bankruptcy.[104]

The popularity of the SUV in the United States has also been attacked on the grounds of another social force—environmental responsibility. Opponents charge that SUVs are too large and fuel inefficient, increasing the nation's dependence on external sources of oil and potentially compromising the nation's ability to broker a lasting peace in the oil-rich Middle East. SUV manufacturers still face the daunting task of balancing environmental concerns with producing a vehicle consumers want.

There are many additional social changes related to automobile preferences. Led by European automakers, manufacturers began developing smaller premium vehicles for sale in the United States in the mid-2000s. Interestingly, the role of the "Big Three" American carmakers in developing these vehicles was indirect rather than direct, with primary activity coming from General Motors' Saab, Ford's Volvo, and Daimler's Mercedes divisions.[105]

Following the 2005 hike in gasoline prices in the United States, GM and Ford began to promote their "flex-fuel" vehicles that can operate either on gasoline or E85, a mix of 15% gasoline and 85% ethanol. The automakers announced plans to produce 650,000 fuel-flex vehicles annually and push for more service stations that carry the alternative fuel. In 2005, 5 million such vehicles—mostly GM and Ford products—were in operation in the United States, but E85 was not easy to find, especially outside of the Midwest. Not only are fuel-flex vehicles attractive to environmentally friendly consumers, but they also represent a competitive advantage for the giant American automakers. When GM and Ford refocused efforts in 2006, Nissan was the only Japanese carmaker with a compatible product, a version of its large Titan pickup.[106]

Luxury carmakers began to experience an acute challenge in the late 2000s and early 2010s: the aging population. Historically, vehicles produced by such manufacturers as Daimler and BMW have been popular with older consumers. Car buyers tend to be younger in nations like India and China, where automobile demand is increasing.[107]

Interestingly, consumer preferences can often conflict, creating uncertainty for firms in an industry. The automobile industry provides an acute example, where consumers in 2009 reported increasing concern for auto safety—as defined by crash-test performance—and fuel economy. Because vehicle weight is a crucial factor in fuel economy, small, lightweight vehicles tend to be both the most efficient and problematic from a safety standpoint. Also, some drivers believe small cars are more vulnerable because too many SUVs and other large vehicles are on the road.[108] Sorting out these differences in social forces can be challenging.

Automobile sales dipped during the economic downturn of 2009 but recovered in 2010, fueled by gains in more fuel-efficient vehicles. The rise in gasoline prices has created long-term challenges for manufacturers that rely on trucks, large cars, and SUVs. Small cars accounted for about one-third of new-vehicle sales globally in the early 2010s, but forecasting fuel prices is complicated, especially in the short term. The trend reversed temporarily in 2010 when average U.S. fuel prices consistently remained below $4 per gallon as sales of SUVs and pickup trucks increased and exceeded car sales at many automakers. When $4 gasoline returned in 2012, however, consumer demand shifted back to automobiles boasting 30 or more miles per gallon and updated SUVs engineered for better fuel economy.[109]

Crises such as the 2010 BP oil spill also influence the energy debate. Although thousands of oil rigs function correctly every day, the BP spill was catastrophic from economic and ecological perspectives, causing some Americans to call for an end to offshore drilling. As BP's stock price declined following the discharge, the shares of firms producing electric cars rose.[110]

The short memories of many consumers further complicate the link between gasoline prices and the demand for fuel-efficient cars. For example, demand for vehicles with higher fuel economy than trucks and SUVs increased in 2012 when gas prices rose, but demand shifted back toward trucks and SUVs in 2013 when gas prices declined.[111] Gasoline prices stabilized in 2013 and declined considerably in 2014, prompting increased demand for SUVs in the United States. As a result, the average fuel efficiency of vehicles sold in the United States grew only one-tenth of one mile per gallon (MPG) from 2013 to 2014.[112] As a result of innovations in hydraulic fracturing (i.e., fracking) technology, gas prices declined again in 2015, lowering the demand for fuel-efficient and electric vehicles.

The automobile has been a cultural icon in the United States for decades, but increased ridesharing and advances in self-driving technology could create a threat. Future drivers are less likely to drive the vehicle, and those who purchase one may be more willing to share it with or rent it to others. Between 2000 and 2015, the average age of new-vehicle buyers increased by seven years. Moreover, the number of new vehicles purchased per capita declined in all age groups except those 55 and older. Slowly but surely, Americans appear to be transitioning to on-demand services.[113]

Predicting consumer vehicle preferences is difficult, especially considering the lag time between production planning and retail purchase. In 2017, Toyota, Honda, and other Japanese producers anticipated a shift in the United States to more fuel-efficient vehicles, investing engineering and marketing resources heavily into their flagship sedans. However, lower gas prices and improved fuel efficiency of SUVs increased the demand for SUVs over automobiles. By early 2018, sales of Nissan sedans had declined by one-third from the previous year, resulting in deep discounts for Altimas and a reconsideration of production plans for 2019.[114]

Market share for SUVs surpassed that of sedans in the United States in 2018, and the shift intensified the following year. The subcompact SUV category included only one vehicle in 2009 but had expanded to 16 by 2019. Category sales increased from 34,000 vehicles in 2010 to over 700,000 in 2018.[115]

Technology has contributed to safer vehicles, but not without a price. Features such as autonomous braking, cameras, sensors, and systems to prevent drivers from drifting out of their lanes are costly for carmakers and raise insurance prices. Although these products reduce the risk of an accident, they tend to be in the sections of the car most prone to damage in an accident, such as bumpers, fenders, and external mirrors. As a result, repairing them costs more than five times the cost of traditional parts, more than offsetting the savings from increased safety.[116]

The average age of vehicles on U.S. roads in 2000 was 8.9 years. Quality and reliability improvements helped raise the average to 11.7 years by 2018. But when COVID-19 wreaked havoc on semiconductor production in Asia and global supply chains, carmakers cut production, and prices for new and used vehicles increased dramatically. By 2021, the average car in the United States was 12.1 years old. This was a problem for vehicle manufacturers and consumers, but auto repair shops and parts stores benefited when drivers spent more on repairs because trade-in options were more costly. The average revenue per vehicle at U.S. repair shops increased from $394 in 2018 to $514 in 2021.[117]

Tiny one- and two-passenger electric vehicles (EVs) have become popular in many cities worldwide, but not in the United States. The Microlino—made in Italy by Swiss company Micro—has a range of 59–143 miles and a top speed of 55 miles per hour and sells for $16,000 and up. Other companies are designing tiny cars in the $10,000 price range.[118] Meanwhile, in late 2023, GM abandoned its target to build 400,000 EVs by 2024 because of lower-than-expected customer interest.[119]

Buying a vehicle in the United States changed dramatically during the pandemic. Early on, production slowed amid lockdown policies and supply chain disruptions, including a global shortage of semiconductors. Demand for vehicles temporarily waned but increased faster than carmakers could produce them. Lower inventories, higher prices, and less negotiating room became the norm. Manufacturers enjoy their newfound bargaining power and depend much less on rebates, bonuses, and promotions to sell cars. Consumers with aging vehicles are faced with less competition and negotiating ability, fewer lease deals, and more expensive used cars if they forego a new one.[120]

China's influence on the global market is increasing. With the world's largest auto market by sales, China is prioritizing EVs by offering tax incentives to consumers and requiring manufacturers to fill an EV quota. Foreign companies like Volkswagen, General Motors, and Toyota must produce more EVs for the Chinese market to remain competitive.[121] However, the increased demand for cars in China has also affected industries besides those involved in automobile production. China Petroleum and Chemical has added nonfuel sections in many of its 95,000 outlets because consumers are interested in purchasing more than gasoline. Large big-box retailers like Carrefour and Home Depot have benefited at the expense of smaller stores as consumers with automobiles shop less frequently but purchase more on each trip. Commercial radio is booming as middle-class drivers enjoy tuning in on the road. Hotel chains are also benefiting as more consumers with automobiles desire to leave the crowded cities on holidays.[122]

Global Concerns

It is challenging to separate domestic social forces from global forces. Indeed, analyzing social forces can be complicated for firms operating in several countries.[123] Each of the world's nations has its own distinctive **culture**, or generally accepted values, traditions, and behavior patterns. These cultural differences can interfere with the efforts of managers to understand and communicate with those in other societies. The unconscious reference to one's cultural values as a standard of judgment—the **self-reference criterion**—has been suggested as the cause of many international business problems. Regardless of culture, individuals become so accustomed to their ways of looking at the world that they often cannot comprehend any significant deviation from their perspective. However, companies that can adjust to a host country's culture can compete successfully.[124] For instance, by adapting to local tastes rather than rigidly adhering to those of its U.S. customers, Domino's has found profitable business overseas by selling tuna and sweet corn pizzas in Japan and prawn and pineapple pizzas to Australians.[125]

Culture A society's generally accepted values, traditions, and patterns of behavior.

Self-reference criterion The unconscious reference to one's cultural values as a standard of judgment.

Cultural differences across borders can create opportunities for firms, especially in overlooked emerging markets. Coca-Cola has been aggressively expanding in China, where sales have outpaced those in the United States. China is Coke's third-largest national market by revenue, after the United States and Mexico. Still, the soft drink giant is banking on even more robust growth in the coming years.[126]

Demand patterns can vary markedly across borders. Walmart entered Mexico in 1991, initially emphasizing supercenters. However, small stores, traditional markets, and street vendors account for over half of grocery sales in the country. In 2008, Walmart launched a smaller entity, Bodega Aurrerá, which has grown to become the largest retailer in Mexico.[127]

Cultural acceptance across borders is not always easy to predict, however. Yum Brands' Taco Bell experienced considerable consumer rejection in Mexico in the 2000s. Yum opened its first store in India in early 2010 in Bangalore and had expanded to over 130 by 2024. Yum plans to open more than 600 Taco Bells in India in the 2020s.[128]

China's market growth during the 2000s and 2010s was extraordinary, although it slowed during and shortly after the pandemic. The country's growing middle class has garnered the attention of many global firms and the emergence of domestic companies to serve its expanding middle class. The Chinese market offers opportunities for U.S. retailers, but many failed in the 2010s. Mattel closed its China-based Barbie flagship store in 2011 after learning that Chinese parents prefer that their daughters read rather than play with dolls. Best Buy closed its nine stores in China in 2011 when it discovered that middle-class Chinese consumers are more interested in large appliances such as washing machines and air conditioners than novelty electronics such as espresso makers and surround-sound speakers. After entering the Chinese market in 2006, Home Depot closed all its stores there in 2012. Whereas Americans appear to prefer do-it-yourself (DIY) home-improvement projects, Chinese consumers prefer do-it-for-me (DIFM) projects.[129]

Many global (e.g., McDonald's, KFC, Pizza Hut) and domestic (e.g., Jollibee Foods' Yonghe King, East Dawning, Hai Di Lao) fast-food chains grew in China in the late 2000s and early 2010s, mainly as a result of a confluence of macroenvironmental trends. Brands like McDonald's and KFC and American food like hamburgers and French fries have become more prevalent. Chinese cities have become more crowded as rural residents have relocated to seek employment, prompting more Chinese consumers to purchase automobiles and making fast food a more frequent option. With additional cars on the roads and few parking places, many are attracted to drive-through service. All these factors have converged to spark industry growth in the region, but growth has not been consistent.[130]

Consider the demand for paper in China. Because developing markets often lack forests and a healthy recycling culture, they often turn to developed nations like the United States to meet their paper needs. Hence, after Chinese imports are unloaded in U.S. ports, recyclable paper—newspapers, cardboard, telephone books, and the like—is shipped back to China as raw materials to produce more boxes and packaging needed for future rounds of exports. This phenomenon has created profitable business opportunities for recycling companies, particularly those near U.S. ports.[131]

White Castle opened its first store in China in 2017 near Shanghai's famous Nanjing Road shopping district. Growth has been slow, but the fast-food icon hopes to capitalize on an increasing interest in Western food, rising beef consumption, and a preference for smaller portions in China. White Castle also features offerings tailored to local tastes, such as a meatless Spicy Tofu burger and a Cherry Duck slider. Décor is more upscale than at units in the United States and resembles a diner more than a fast-food restaurant, with soft lighting, wooden wall panels, and blue booths. Sliders in China cost 13 yuan (about $2), more expensive than McDonald's burgers in China (7.5 yuan) or sliders in the United States (about 80 cents).[132]

Cross-cultural differences in norms and values also require modifications in managerial behavior. For example, business negotiations may take months or even years in countries such as Egypt, China, Mexico, and much of Latin America. Until personal friendships and trust develop between the parties, negotiators are unwilling to commit themselves to major business transactions.[133] Also, Japanese business executives invite and expect their clients or suppliers to interact socially with them after working hours, for up to three or four hours an evening, several times a week. Westerners who decline to attend such social gatherings regularly may be unsuccessful in their negotiations because these social settings create a foundation for serious business relationships (see Case Analysis 4-1).

Case Analysis 4-1

Step 7: What Social Forces Affect the Industry?

Examples of important issues include (but are not limited to):

1. Societal traditions
2. Societal trends
3. Prevailing values
4. Consumer psychology
5. Society's expectations of business and consumer activism
6. Concerns about the quality of life
7. Expectations from the workplace
8. Religious trends and values
9. Population and demographics
10. Birth rates and life expectations
11. Women in the workforce
12. Health consciousness
13. Attitudes about career and family
14. Concern for the natural environment

As with other macroenvironmental forces, it is important to outline how each vital force has affected the industry and how it will likely do so in the future. For example, health consciousness and dual-career couples have spawned the demand for microwavable foods and meal-delivery services like Blue Apron during the last two decades. How will these forces affect industries in the next decade?

Business and Technology

Keeping up with technology is a difficult task.

Source: violetkaipa/Shutterstock.com.

Societal trends can vary widely among nations, primarily related to other factors. For example, Europeans prefer smaller cars because the roads are often narrow, gasoline is taxed heavily, and fuel economy is more important. In contrast, U.S. consumers traditionally have demanded relatively larger vehicles in a country where roads are wider, gasoline is less expensive, and fuel consumption does not play as significant a role in the purchase decision.[134] Fashion in China also illustrates how social trends vary across borders. In China, preferences reflect a mix of Asian, American, and European tastes.[135]

Societal traditions define societal practices that have lasted for decades or centuries, but changes can occur. For example, celebrating Christmas in the Western Hemisphere provides significant financial opportunities for card companies, toy retailers, turkey processors, tree growers, mail-order catalog firms, and other related businesses. Some retailers hope to break even during the year and generate profits during Christmas shopping.[136] Amazon generates an estimated 36% of its annual sales in the fourth quarter compared to 30% for Target and 28% for Walmart. Retailers that depend heavily on Christmas-season sales are pressured to stock the right products and strike the appropriate balance between discounts on Black Friday/Cyber Monday and sustainable margins.[137]

The Black Friday concept has also taken hold in China, where e-commerce websites operated by Alibaba run massive sales on November 11. Alibaba has been described as a Chinese blend of eBay, Google, and Amazon. Launched in 2009, the company's "Singles Day" is the world's largest one-day sales event. Alibaba set a record on November 11, 2021, with more than $85 billion in one day.[138]

Political and social forces often overlap. U.S.-based corporations have exceptionally high visibility because of their American origins. As such, citizens of other countries may disrupt the business operations of American firms as a form of anti-U.S. protest. Many French citizens decried the venture only two months after Euro Disneyland opened in France. Hundreds of French farmers blocked entrances to the theme park with their tractors to express their displeasure with cuts in European farm subsidies encouraged by the United States, even though 90% of the food sold at the park was produced in France.[139]

Technological Forces

The world is flat. *New York Times* foreign affairs correspondent Thomas Friedman's bestseller presents his spin on a phenomenon that has changed the world forever: globalization. In *The World Is Flat*, Friedman argued that the period of American world economic domination has ended because technological changes leveled or "flattened" the economic playing field for those in other countries, especially India and China.[140] Today, his claim is self-evident, marked by increased global business activity in even smaller nations like Ghana and Vietnam.

The dotcom boom and subsequent bust around the turn of the century contributed significantly to the emergence of Friedman's "flat world." During the bubble, telecommunications companies were replete with cash. They invested hundreds of millions of dollars to lay fiber-optic cables across the ocean floors that inexpensively connected countries like India and China to the United States. The dotcom bust resulted in significant stock market losses, forcing companies to cut spending wherever possible. Hence, many turned to opportunities for cost-cutting created by the fiber-optic cables and began offshoring jobs to address a new economic reality. As Indian entrepreneur Jerry Rao explained in Friedman's book, any work that can be digitized and moved from one location to another will be moved. As evidence, about 500,000 U.S. Internal Revenue Service (IRS) tax returns are completed by accountants in India each year.[141]

Technological change can decimate existing businesses and even entire industries by shifting demand from one product to another. The flattening of the world described by Friedman is only one of many significant technological transformations. Historical examples include the shifts from vacuum tubes to transistors, steam locomotives to diesel and electric engines, fountain pens to ballpoints, propeller airplanes to jets, and typewriters to computers.[142] Business applications of technology are not always smooth, however. For example, internet icon Shawn Fanning spawned an "online music-swapping" industry with his launch of Napster, a service whereby patrons could exchange music files via the internet. Copyright and legal complications forced a shutdown and sale of the business, but the technology behind Napster created a world where most music is downloaded online.[143]

Advances in technology create new challenges for businesses. For example, the advent of 3-D printers has resulted in digital piracy threats. After watching the trailer for *Star Wars: The Force Awakens*, enthusiast Ken Landrum designed a Stormtrooper gun of his own, constructing nearly 40 pieces for his 3-D printer. Landrum produced a replica and posted his design on a message board eight months before the movie's release and five months before toys reached the stores. Landrum charged $55 for the files required to print the replica, undermining efforts by Walt Disney to promote and profit from movie-related paraphernalia.[144]

For several reasons linked to technological advances, more industries can be viewed as winner-take-all today. First, digitization can eliminate capacity constraints. When an infinite number of perfect copies of a piece of music, software, or another digital file can be reproduced virtually cost-free, industry leaders with only a slight quality advantage now enjoy a substantial cost advantage on a per-unit basis. Second, where network effects exist, the value of an offering increases simultaneously with the number of users. For example, the extensive user groups provided by eBay and Craigslist make the site more valuable and profitable for others because sellers are attracted to a website with the most buyers, and buyers are attracted to a website with the most sellers. Finally, developments in transportation and telecommunications have reduced and sometimes eliminated geographical barriers that either prevented or raised costs incurred by buyers in one locale from selecting a seller elsewhere.

The influence of artificial intelligence (AI; discussed in Chapter 1) will be extensive. However, the effect of technological advances can be dramatic but need not be detrimental. For example, the advent of the "e-book" has changed how many consumers purchase and read books. Amazon promoted the shift instead of resisting it by developing a reader, Kindle, and selling most of its books in Kindle format.[145]

Once commercialized, advances in technology can quickly become dated, however. Many firms struggle to apply new technology to their existing business models. Large, established firms can be particularly vulnerable to such changes.[146] The automobile industry, for example, is affected by technological changes associated with efforts to build cars that consume less or no gasoline. Venture-capital-supported upstarts are also racing to produce vehicles with efficient gasoline, electric, or hybrid engines. In an industry that places a premium on size and experience, a major technological shift could propel one or more of these young entrepreneurial firms into a strong market position over the next decade.[147] The success or failure of efforts to build more fuel-efficient and EVs is linked to volatility in oil prices, an economic force.

The pursuit of EVs demonstrates the risk and complexity of attempting to stay on top of technological change. The first generation of battery-powered cars had a limited range. Although current EVs are touted as "green" alternatives to gasoline-powered vehicles, they must be recharged with electricity, typically produced from coal- and gas-fired power plants.[148] Moreover, battery packs are costly to replace. Costs typically decline as technology advances, but uncertainty remains about EVs' long-term cost-effectiveness and performance.[149]

Developments in technology and buying preferences are changing the auto-buying experience. Tesla Motors maintains 236 brick-and-mortar showrooms but sells most of its vehicles online. AutoNation, the largest U.S. auto retailer, with over 300 stores, also emphasizes online sales. Manufacturers like General Motors and Toyota are investigating online approaches, but development has been slow. Many dealers hesitate to post realistic prices for their vehicles to avoid giving their rivals a target.[150]

Many traditional auto retailers now provide internet departments for customers who prefer to shop online, thereby creating pricing pressure on retailers. This trend, coupled with declining sales during the pandemic, prompted many dealers to downsize. Large lots were initially designed to attract traditional, on-site customers who demand extensive inventories from which to select. Still, internet-savvy customers are driven more by price and online convenience, so reducing inventory costs is a logical response.[151]

Advances in technology can substantially influence the production costs associated with a product or service. Manufacturer limitations in the sizes of glass sheets they can handle, for example, kept prices for flat-screen TVs high throughout the early 2000s until a spike in demand prompted the introduction of a more efficient manufacturing system.[152] Food and meat producers like ConAgra Foods, Hormel Foods, and Perdue Farms submerse prewrapped foods into pressurized water tanks, a technique that enables vendors to keep deli meats in the pipeline for as long as 100 days.[153]

Changes in technology and logistics contributed to performance declines at FedEx in the early 2010s. The company's initial success leveraged its ability to guarantee overnight parcel delivery, complete with tracking data. However, competitors have expanded their capabilities associated with overnight delivery, package tracking, and overall logistics. Faced with a broader array of options, many customers have opted for less expensive alternatives, including real-time transit and delivery tracking. FedEx began scaling back its global delivery routes in 2013 to accommodate the shift in demand.[154]

Upstart San Francisco's Memphis Meats, Inc. created the world's first chicken strips from self-reproducing cells in 2017. Rebranded as UPSIDE, the company introduced the first consumer lab-grown chicken in 2021. Scientists, environmentalists, and animal activists are promoting the technology, believing it offers the long-term potential for eliminating farm-raised cattle, hogs, and chickens. The so-called "clean meat" could help the food industry avoid the costs associated with grain, water, and waste disposal. Tyson Foods has launched a venture capital fund it says would consider investing in meat grown cell by cell, and a Hormel representative called the ongoing research "a good long-term proposition."[155] Plant breeders at Bayer and Syngenta are also working on new varieties of tomatoes capable of being grown with 20–50% less water to fulfill demand for ketchup and tomato-based sauces while addressing draught challenges in California.[156]

Many retailers utilize technology to understand shopping patterns better. In 2019, UK-based Tesco PLC began testing stores without cashiers; instead, they have cameras that track what shoppers pick and charge them electronically as they leave. Amazon pioneered similar technology in its Amazon Go stores in the United States.[157]

P&G began selling products—Pantene shampoo, Pampers diapers, Cover Girl cosmetics, and Gillette razors—directly to consumers online through its e-store in 2010. Although traditional retailers were not receptive to the news because of the increased

Amazon Prime Offers Free Shipping

Source: Tada Images/Shutterstock.com

competition, P&G acted because of the ever-expanding interactive role of the internet. Chief Executive Bob McDonald said, "We want to maximize our sales through retailers, but we also want to be where the consumer wants to shop."[158] Direct sales to consumers at P&G and other companies continue to expand.

Technology has enabled significant changes in the customer service arena. Many of the touch-tone consumer hotlines of the 1990s were replaced in the early 2000s by "virtual agents" that answer calls and use speech-recognition technology to either resolve a question or transfer the customer to a "real person" who can. Studies suggest that these systems improve response time by as much as 40%. Whereas some consumers appreciate the increased speed and are enamored by many agents' use of accents and even flirtatious personalities, others feel awkward about "talking to a computer pretending to be a person." Some U.S. companies have addressed this frustration by utilizing fewer technology-based systems and directly transferring incoming calls to their consumer hotlines and technical support centers to representatives in countries such as India, where labor costs are much lower.[159] Nonetheless, the prevalence of AI-assisted customer service continues to expand because it reduces costs.

Technology's influence on global business can also be viewed from a development perspective. For years, manufacturers in technologically advanced nations established operations in developing countries with low labor and raw material costs. These expansions are generally welcome because they bring financial resources, workforce training and development opportunities, and the chance for the host country to acquire new technologies. This interaction has benefited the developing countries over the long term, most notably in emerging nations such as Mexico, Brazil, India, and South Africa.[160]

However, leaders in emerging nations are not always satisfied with the results of global business expansion. Anticipated economic and social benefits such as specialized business development assistance, establishing research and development (R&D) facilities, and hiring locals in managerial and other professional positions, do not always materialize.[161] This disconnect creates an ongoing political challenge as consumers in developing economies seek to improve their standard of living.

The notion of expanding technology and a level economic playing field has also created challenges for Western firms and societies, including the debate over "free trade" discussed in the previous chapter. Supporters contend that a flatter world is a natural order and that efforts to thwart it will only stifle growth in economic powers like the United States, an argument Friedman echoes. Proponents charge that unbridled global trade drives down wages and will ultimately result in a reduced standard of living in developed nations.

The Internet

From e-mail to AI, the widespread use of the internet over the past two decades is arguably the most pervasive technological force affecting business organizations since the dissemination of personal computers. Initially, internet growth occurred in the most developed nations, but the rest of the world is catching up. There were over 5.3 billion internet users in 2023, about 64% of the world's population. Internet penetration varies by global region, however. Most Americans, Northern Europeans, and Western Europeans are connected, with lower representation in South America, Central Asia, and Africa.[162]

The internet has spawned countless changes in how business is conducted globally. Traditional payment companies have noted the rise of mobile money in Africa. In late 2023, over 400 million Africans were spending money online, doubling during the past four years. Many Africans use mobile money—not credit or debit cards—to transact with merchants like Uber and Netflix. Mastercard and Visa are investing billions of dollars in African companies involved in these transactions.[163]

The global impact of the internet continues to expand. See the statistics at https://fredblog.stlouisfed.org/2021/04/whos-online-mapping-internet-use-around-the-world/.

The internet has changed the way news and information are disseminated. In the last two decades, the proliferation of segmented television networks and the emergence of the internet have led to a decline in newspaper readership—particularly among younger readers—as busier professionals pursue information outlets in the "new media," including those facilitated by the internet and talk radio. Many advertisers in newspaper classifieds have shifted to internet sites or eBay. Daily newspaper readers in the United States peaked at 63 million in 1985 but declined to about 21 million by 2021. Except for *USA Today* and select publications like the *Wall Street Journal*, newspapers have struggled to retain readership, and the successful ones are leveraging internet-oriented business models.[164] Some newspapers have launched targeted youth-oriented publications and have begun leveraging the internet's power to regain readers. Nonetheless, many young Americans depend on social media for news.[165]

The Internet

The development of the internet has changed business activities across the board.

Source: beboy/Shutterstock.com.

Consider the airline industry. Sparked by internet applications two decades ago, many consumers began to purchase their airline tickets online instead of utilizing the traditional intermediary, a travel agency. As airlines started investing in this much more efficient ticketing in the 1990s, they began cutting commissions paid to travel agencies for booking their flights. In 2003, the major U.S.-based airlines followed Delta's lead by eliminating commissions for tickets sold in the United States, except where specially negotiated arrangements existed between the airline and the agency.[166]

Internet travel agencies such as Orbitz, Travelocity, and Expedia are thriving. These sites invest heavily in promotion and emphasize convenience, ease of use, and access to the "best deals." Unlike traditional travel agents, these online competitors aggressively target hotel reservations and have sparked feuds with large hotel chains that attempt to lure customers to their websites for bookings. Hotel chains charge that online travel agents inflate room rates by as much as 30%, discouraging potential customers and cutting into hotel profits. Online agents contend that they offer value to customers by increasing choices.[167]

A critical fundamental strategic change, however, concerns the dramatic shifts in organizational structure and their influences on viable business models. Many organizations are modifying their business models to augment their revenues through sources other than sales. As John Magretta put it, "A good business model begins with an insight into human motivations and ends in a rich stream of profits."[168]

The internet has unleashed a plethora of alternative business models, some successful and some not. Consider the business model of one short-lived dotcom. By early 2001, Cyberrebate had become very popular, offering rebates with every product, some for the entire purchase price. Critics charged that such a business could not sustain itself by giving away merchandise. However, according to CEO Joel Granik, fewer than 10% of customers failed to collect their rebates for merchandise typically priced several times the retail level, and many others converted to products whose rebates constituted only part of the purchase prices.[169] Cyberrebate filed for Chapter 11 bankruptcy protection in May 2001.[170]

Launched in 2008, Groupon—named by combining the words *group* and *coupon*—is a deal-of-the-day website that informs consumers about short-term bargains. Millions of members give Groupon the leverage to negotiate better deals with retailers, which in turn helps attract even more members. Of course, such a business would not be possible without the internet, Facebook, e-mail, and other means of electronic communication. Groupon became a significant market success in only a few years.

Critics have challenged the notion that new business models are needed to compete in the "new economy." Michael Porter noted that "many of the pioneers of Internet business . . . have competed in ways that violate nearly every precept of good strategy . . . By ignoring strategy, many companies have undermined the structure of their industries . . . and reduced the likelihood that they or anyone else will gain a competitive advantage."[171] Porter and others have argued that the market forces that governed the traditional economy have not disappeared in the internet economy. Hence, many dotcoms failed in 2000 because they discarded these rules, set out to write their own, and built business models that did not work. Even today, some firms have been slow to learn this lesson.

The success or failure of a business model may be a function of factors such as time, technology, or problems with execution, not the quality of the idea itself. As such, some business models may not prove successful at first, but with minor changes, they may become successful later. For example, purchasing groceries online was initially unsuccessful because of issues with website design, inefficient warehousing, and relatively high prices. By the mid-2000s, improvements in these areas, technological advances, and a more internet-savvy consumer sparked a turnaround among online grocers. Hence, the original model has been enhanced and is yielding positive results.[172]

Even considering the failure of many dotcoms, the internet has spawned a fundamental change in the structure of most firms. During the past two decades, organizations have engaged in a process economists call "disaggregation and reaggregation."[173] Nobel Laureate Ronald Coase proposed the economic basis for this transformation in *Coase's law*: A firm will tend to expand until the costs of organizing an extra transaction within the firm

Case Analysis 4-2

Step 8: What Technological Forces Affect the Industry?

Examples of essential issues include (but are not limited to):

1. Effect of the internet and social media
2. Scientific improvements
3. Inventions
4. Technology affecting production
5. Expenditures on research and development
6. Focus on R&D expenditures
7. Rate of new-product introductions
8. Automation

become equal to the costs of carrying out the same transaction on the open market.[174] In other words, a large firm can perform most tasks—raw material procurement, production, human resource management, sales, and so forth—more efficiently than if they were "outsourced" to the open market.

However, advances in the 2000s in the internet and related technologies—coupled with rapid economic development in Asia and Eastern Europe—enabled firms to reorganize work processes and improve efficiency. As a result, it is now much easier to share and exchange information and to "farm out" specific tasks to the most efficient parties across the globe. Today, many call centers and telemarketing functions are performed in India because Indian firms can utilize low-cost labor and leverage technology more efficiently than their American counterparts.[175]

As a result of this change, many progressive firms have placed less emphasis on performing all the required activities. They have formed **partnerships**—contractual relationships with enterprises outside the organization—to manage many of the functions that were previously handled in-house. Whereas *outsourcing* refers to specific agreements associated with a single task, *partnering* implies a longer-term commitment to more complex activities.

Partnership A contractual relationship with an enterprise outside the organization.

It is difficult to overstate the effects that disaggregation and reaggregation have had on business enterprises and the effort required to manage them strategically. In many respects, a partner can be viewed as an extension of the organization. Partner capabilities and limitations are fast becoming as important as internal strengths and weaknesses. Although these changes are more pronounced in some markets than in others, the development of the internet economy has significantly changed the nature of business in all industries (see Case Analysis 4-2).

Strategic Dimensions of the Internet

In addition to the shift toward disaggregation and reaggregation, the expansion of the internet has changed how strategic managers assess their environments and ultimately make strategic decisions. Five key interrelated strategic factors are discussed in this section.

Movement Toward Information Symmetry

Information symmetry occurs when all parties to a transaction share the same information concerning that transaction. Information symmetry is an underlying assumption of the economics-based models of "pure competition." **Information asymmetry**—when one party to a transaction has information that another does not—is the primary reason why many markets are less competitive than they otherwise would be. Firms have a distinct advantage when they possess information unavailable to prospective buyers. Businesses often seek to promote information asymmetry and utilize the information edge to their advantage. Automobile retailers, for example, rarely post their absolute bottom-line prices on their vehicles. Consumers are generally left to "haggle" with multiple dealers to estimate the actual wholesale cost of the car and the value of various options and accessories. The lack of consumer knowledge, as well as the lack of time and expertise required to obtain the information desired, results in higher selling prices for many of the retailers.

Information symmetry When all parties to a transaction share the same information concerning that transaction.

Information asymmetry When one party has information that another does not.

On the other hand, buyers gain an advantage when they obtain access to this information. Comparison shopping for term life insurance used to be a complicated endeavor but has been made simple by numerous websites. Also, independent vehicle test results, retailer websites, wholesale costs for new vehicles, and estimated trade-in values are only a few clicks away. Some consumers purchase a vehicle from an advertiser on an informational site. Even sophisticated consumers who do not buy online will likely force their traditional retailer of choice to negotiate more competitively.

Shoppers have become more internet-savvy, more intentional, less impulsive, and more thoughtful about prices. They are more likely to take the time necessary to identify bargains and to use—and stick to—shopping lists. Many begin the shopping process online, where they are less impulsive, and enter traditional stores better educated, better prepared, and less influenced by mass merchandising and in-store displays. Successful retailers are finding new ways to attract customers and make the shopping experience more distinct and enjoyable.[176]

In 2010, Gillette dominated the razor industry in the United States, with a market share above 70%. At that time, razors were purchased in pharmacies and other retailers. During the past decade, companies like Dollar Shave Club, 800Razors, Harry's Razor, and Shave Mob began offering high-quality razors at lower prices and selling them almost exclusively online. Although the gap between traditional and online sellers remains large, Gillette's strategic focus has shifted from quality to value as customers have become more aware of their alternatives. By 2020, Gillette's market share declined to below 50%, followed by Schick at 10% and Dollar Shave Club at 8.5%.[177]

Information symmetry has redefined the role of the automobile salesperson. Many customers enter the dealership armed with in-depth product and pricing information. Traditional sales representatives have become more of a barrier than a facilitator; many customers neither completely trust nor need the information they provide. Many dealerships have redefined the salesperson's role to that of a low-key product specialist instead of a price haggler. With greater transparency about products and pricing, sales representatives must find other ways to add value to the shopping experience.[178]

Showrooming A process—typically aided by smartphone apps—whereby consumers easily and quickly compare prices before they purchase a product they evaluate in a brick-and-mortar store.

Online retailers enjoy lower overhead expenses because they do not operate physical stores, and many are not required to collect state sales taxes. As a result, some shoppers visit brick-and-mortar retailers to evaluate product offerings and solicit advice before purchasing online.[179] This process is driven by technology because smartphones use internet technology to provide real-time information to buyers at the point of sale. Aided by smartphone apps, consumers can easily and quickly compare prices before purchasing a product they evaluate in a brick-and-mortar store, known as **showrooming**. Downloads like RedLaser and TheFind enable users to scan store barcodes to obtain real-time price

Showrooming

Many consumers compare prices through internet sources before making purchases.

Source: Tyler Olson/Shutterstock.com.

comparisons at brick-and-mortar and online rivals. About half of in-store shoppers do not use the retailer's app, and those who use an app in the store are more likely to purchase their selections online. Customers do not see buying digitally or at brick-and-mortar stores as an either-or proposition.[180]

With consumer showrooming and cutthroat pricing as major dilemmas, companies like Best Buy and Target are pressuring manufacturers to force retailers to restrict discounts on products like televisions. Although price-fixing is illegal in the United States, Supreme Court rulings have upheld the right of manufacturers to restrict the prices at which retailers advertise their products. Sony and Samsung are cooperating, whereas Panasonic, Sharp, and LG have been hesitant to dictate pricing policies at the retail level.[181] Best Buy and many other large retailers initially offered the same products online and in physical stores but at different prices. In 2013, Best Buy decided to address the problem of showrooming head-on. The big-box retailer ran advertisements before the Christmas shopping season touting its stores as "the ultimate holiday showroom" and inviting customers to compare prices. Best Buy's approach demonstrated confidence in its price-matching policy, but some of the items in the store are available at lower prices (and with free shipping) online. Retailers like Best Buy and Office Depot that practice price discrimination between online and brick-and-mortar outlets will match the online price for in-store customers, but they must ask for it.[182]

Best Buy's response to market changes has been multifaceted. Prodded by lost sales to online rivals, Best Buy closed about 50 of its big-box stores in 2012 and added hundreds of new "Best Buy Mobile" stores emphasizing cellular phones and related merchandise. Best Buy Mobile outlets average 1,420 square feet, compared to 38,570 for traditional Best Buy stores.[183] Best Buy Chief Marketing Officer Barry Judge said, "Our pricing has to be very competitive. We know what Amazon's price is on everything they sell."[184] Best Buy operated about 1,000 stores in the United States in 2023.

The Internet as a Distribution Channel

The internet acts as a distribution channel for nontangible goods and services. Consumers can purchase items such as airline tickets, insurance, music, stocks, and computer software online without physical delivery. For tangible goods and services, businesses can often distribute the "intangible portion" online, such as product and warranty information. Whenever physical distribution can be replaced entirely or partially by electronic distribution, transactions are likely to occur more rapidly and at lower costs.

Speed

The internet improves the speed of the actual transaction and the process that leads up to and follows it. Consumers and businesses alike can research information 24 hours a day. Orders placed online may be processed immediately. Software engineers in the United States can work on projects during the day and then pass their work along to their counterparts in India, who can continue work while the Americans sleep. The pace of business has increased and has been accompanied by heightened expectations for speed by consumers.

Interactivity

The internet provides extensive opportunities for interactivity that would otherwise not be available. Consumers can discuss their experiences with products and services on bulletin boards or chat rooms. Firms can readily exchange information with trade associations that represent their industries. Users can share files with relative ease. Rumors and "bad news" spread rapidly. Many firms rely heavily on social media and online promotion strategies.[185]

Potential for Cost Reductions and Cost Shifting

The internet provides many businesses with opportunities to minimize their fixed and variable costs, thereby enhancing flexibility. Information can be distributed to thousands or millions of recipients without the expense associated with the mail system or the equipment required. The "virtual storefront," for example, does not necessarily require an actual facility and may reduce transaction costs through automated online ordering systems, although this is not always the case. This potential is not always realized, however. Consider that e-mail is much cheaper than traditional mail, but much of it is never read; hence, lower per-unit costs do not necessarily translate into greater effectiveness.

Commoditization and Mass Customization

Two recent trends reflecting the confluence of social and technological forces have created many strategic challenges. Commoditization and mass customization illustrate how different environmental forces can interact in complex ways to influence entire industries.

Commoditization A process whereby firms are having a more difficult time distinguishing their products and services from those of their rivals.

From a strategy perspective, **commoditization** refers to the increasing difficulty firms have distinguishing their products and services from those of their rivals. Rapid technological advances have created numerous opportunities for firms to differentiate their products from those of their competitors—differentiation that can exceed buyers' needs and even confuse them. Buyers become inundated with excessive options and little time to investigate or comprehend most of them. To simplify their choices, buyers view products as commodities and reduce purchase decisions to a few key factors, such as a significant product feature, reliability, or convenience. If buyers cannot readily distinguish among the competitors along these factors, they may view the product as a commodity and base their final purchase decision on price. Hence, although firms may do all they can to set themselves and their products apart from the competition, customers may not see them as distinguishable.

Commoditization can create problems for firms that spend more to enhance product features but must satisfy price-conscious buyers. It occurs when buyers have difficulty distinguishing one product or brand from another. For example, laptop computers and printers represented substantial upgrades over existing products when they were introduced, but most brands coalesced around common features. With limited time and expertise to investigate their options, consumers often overlook differences in quality and features and rely on user ratings and price. Hence, product differentiation becomes a costly process.

Mass customization The ability to individualize product and service offerings to meet specific buyer needs.

A second trend, **mass customization**, refers to the ability to individualize product and service offerings to meet specific buyer needs. Like commoditization, mass customization has also been fostered by advances in technology. It occurs when Amazon and other online retailers suggest top-selling books or other products for individual customers based on their previous purchase behavior. In this way, companies like Amazon take a commodity—the same product that could be purchased from other retailers—and customize it for individual consumers. Similarly, Google tracks user data and individualizes content and advertising from many providers.

Economies of scale The decline in unit costs of a product or service that occurs as the absolute volume of production increases.

Mass customization is essential because it enables firms to personalize offerings while building **economies of scale**—the decline in unit costs of a product or service that occurs as the absolute volume of production increases. In a general sense, customization and economies of scale are inversely related. Scale economies develop when a firm produces a large quantity of a product, eliminating its ability to satisfy individual needs with specialized products. Although not easy to achieve, mass customization—via technology and creative approaches—enables firms to deliver both customization and economies of scale.

Commoditization and mass customization are related to some extent. In some respects, technology enabling mass customization can allow firms to combat encroaching commoditization. When both trends are considered together, it becomes clear that successful firms must find a way to cut through the confusion and reach buyers in meaningful, personalized ways while maintaining production efficiencies.

Environmental Scanning

Environmental scanning The systematic collection and analysis of information about relevant macroenvironmental trends.

Given the rapid pace of change, maintaining currency in the macroenvironmental forces affecting one's industry can be daunting. **Environmental scanning** is the systematic collection and analysis of information about relevant trends in the external environment. Surveys of Fortune 500 firms generally indicate significant payoffs associated with their

ASDA Competes with Low Prices in the United Kingdom

Source: Richard Coomber/Shutterstock.com.

environmental-scanning activities, including an increased general awareness of environmental changes, better strategic planning and decision-making, greater effectiveness in governmental matters, and proper diversification and resource-allocation decisions. However, the respondents often indicate that the results of their environmental analysis are typically too general or uncertain for specific interpretations.[186] Hence, useful environmental scanning is critical to produce relevant information.[187]

Britain's leading retailer, Tesco, uses a "Clubcard" to collect customer data and tailor products and promotions specifically for individual customers. Tesco has leveraged approaches like this to increase its share of the grocery market in the United Kingdom to 26.9% in 2022, compared to 14.6% by Sainsbury's and 14.1% by Asda.[188] Interestingly, Walmart owned Asda until 2020 but sold the company and its retail operations in Argentina to reduce its global footprint in slow-growth retail and focus more on higher-growth or e-commerce opportunities.[189] Walmart also reduced its holdings in the 329-store Tokyo-based grocery chain Seiyu GK to 15%.

Many specialized firms presently offer environmental-scanning services to strategic managers by providing them with real-time searches of published material associated with their industries. Top managers at many smaller firms rely on publications such as the *Wall Street Journal* to remain abreast of changes that may affect their firms.

Top managers often have difficulty maintaining objectivity when evaluating information because they selectively perceive their environment through their own experiences and organizational strategy. One study concluded that the heads of financial institutions that emphasize cost minimization tend to focus their monitoring activities on competitors and regulators. In contrast, financial institutions that pursue differentiation are more likely to engage in scanning activities focusing on growth opportunities and customer satisfaction.[190]

Because environmental scanning is a systematic endeavor, it often highlights relationships among key industry influences in two or more forces. For example, during a recession, many consumers become more cautious and "trade down" from brand-name products to less expensive generics or store brands. Grocery shopping surveys in the United States comparing pre-recession habits in 2008 and mid-recession habits in 2011 illustrate this phenomenon. During this time, the percentage of consumers shopping with lists increased from 45% to 75%, and private-brand sales as a percentage of grocery sales grew from 15% to 20%. Also, 44% of Americans increased their shopping at bulk stores.[191] This shift created challenges for consumer goods manufacturers and grocery stores because more organized and frugal shopping translates into lower margins.

Given the vast array of information readily available today, the primary problem created by environmental scanning is often one of determining which sources warrant attention. For example, a well-known American firm might be referenced in over a thousand news stories in a week. However, small organizations and those competing in global markets may have difficulty obtaining reliable information on environmental conditions and trends. This challenge is pervasive in developing markets, where reliable information is not always available and government data are suspect. Data limitations and discrepancies create significant difficulties for managers attempting to make informed strategic decisions.[192]

Summary

1. **Explain how industries are affected by the third macroenvironmental force, social forces.**

   This chapter addresses two of the four macroenvironmental forces that affect every industry. Although each industry is affected by all four sets of environmental forces, the relative influence of the four forces can vary substantially by industry. Social forces include traditions, values, societal trends, and a society's expectations of business. Strategic managers should understand why and how their customers make purchase decisions.

2. **Explain how industries are affected by the fourth macroenvironmental force, technological forces.**

   Technological forces include factors like the internet and scientific improvements and innovations that affect firm operations and the products and services in an industry. It is difficult to overstate the impact of the internet—a technological force—on industries globally.

3. **Identify the five strategic dimensions of the internet.**

   The internet has five dimensions: (1) movement toward information symmetry, (2) use as a distribution channel, (3) increased speed, (4) increased interactivity, and (5) the potential to reduce and shift costs.

4. **Define and discuss the importance of environmental scanning.**

   Environmental scanning—staying abreast of external changes that affect the industry—is a crucial challenge for executives.

Key Terms

Commoditization, p. 104
Culture, p. 93
Economies of scale, p. 104
Environmental scanning, p. 104
Information asymmetry, p. 101
Information symmetry, p. 101
Mass customization, p. 104
Partnership, p. 101
Self-reference criterion, p. 93
Showrooming, p. 102
Societal values, p. 80

Review Questions & Exercises

1. Provide an example illustrating how social trends present both opportunities and threats to businesses in high-tech industries.
2. Provide an example of how the internet has presented an opportunity or a threat to an industry or firm.
3. Using your college or university as an example, explain how social and technological forces have affected its operations over the past decade.
4. Which industries and firms are the most susceptible to showrooming? Why?

Practice Quiz

True or False

1. In many respects, social forces drive consumer markets.
2. A religion's expansion in an emerging country is an example of a social force.
3. The unconscious reference to one's cultural values as a standard of judgment is known as *cultural bias*.
4. *Commoditization* refers to individualizing product and service offerings to meet specific buyer needs.

5. Reading business publications can serve as a means of environmental scanning.
6. Environmental scanning can be difficult for large firms because of the availability of too much information.

Multiple Choice

7. Which of the following is *not* an example of a social force?
   A. Trends
   B. Values
   C. Industrial change
   D. All of the above are examples of social forces.
8. When consumers use a smartphone to compare prices before they purchase a product they evaluate in a brick-and-mortar store, they are engaging in
   A. net-leveraging.
   B. showrooming.
   C. cognitive dissonance.
   D. none of the above
9. Technological forces often
   A. decimate an entire industry.
   B. spawn new industries.
   C. vary substantially among industries.
   D. all of the above
10. How has the internet changed strategic management?
   A. It promotes information symmetry.
   B. It can often be used as a distribution channel.
   C. It often reduces costs.
   D. All of the above
11. The systematic collection and analysis of information about relevant macroenvironmental trends is known as
   A. strategic planning.
   B. strategic management.
   C. environmental scanning.
   D. none of the above
12. Which of the following is a significant problem with environmental scanning today?
   A. Locating information about the industry
   B. Determining which available information is worthy of the time and energy required
   C. Sharing information with government regulators
   D. None of the above

Answers can be found in the end-of-book Answers section.

Case 4: Amazon.com

In 1994, recent Princeton graduate and Wall Street executive Jeff Bezos left his job, began working out of the garage of his rented home, and raised several million dollars of start-up capital to launch an online retail business. The following year, he opened a 400-square-foot office in Bellevue, Washington, and launched Amazon, billed as "the world's largest bookstore." By 1996, Amazon had become one of the most successful web-based retailers, with revenues of almost $16 million.

Bezos took Amazon public in 1997, and annual sales rose to $147 million. That same year, Amazon became the sole book retailer on AOL's public website and Netscape's commercial channel. In 1998, Amazon launched its online music and video stores, began to sell toys and electronics, and expanded its European reach by acquiring online booksellers in the United Kingdom and Germany. The company grew at a phenomenal pace in the years that followed.

In 2000, Amazon launched a 10-year partnership with Toysrus.com to co-brand a toy and video game store. The following year, Amazon cut 15% of its workforce as part of a restructuring plan that forced a $150 million charge. Amazon also partnered with now-defunct Borders in 2001 to manage the rival's web operation. AOL invested $100 million in Amazon in 2001, and Amazon showed its first profit in the fourth quarter of 2001. Rapid growth continued throughout the mid-2000s.

Amazon introduced the Kindle e-reader in 2007 and sold more Kindle e-books than print books in 2011. The firm also expanded its online reach by engaging in many partnerships and acquiring Zappos.com in 2009 and Quidsi and Woot in 2010. Amazon has grown exponentially, increasing revenues from about $11 billion in 2006 to $89 billion in 2014. In 2015, Amazon passed Walmart and became the most valuable retailer in the United States by market capitalization. Amazon acquired Whole Foods Market in 2017.

Today, Amazon offers a wide variety of products besides books and e-books, including Kindle e-book readers, online auctions, video streaming, toys and games, electronics, kitchenware, and computers. Amazon completes several key acquisitions annually and hosts sites in the United States and 16 other nations. The company competes with publishers, distributors, manufacturers, and retailers across the globe. Amazon has also moved into the brick-and-mortar arena by introducing small convenience stores and curbside pickup locations.

Case Challenges

1. How would you define Amazon's industry? What difficulties do you encounter in identifying primary competitors and critical lines of business?
2. A general trend has been toward "bricks and clicks"—combining internet and traditional retailing outlets. How has Amazon succeeded as an e-tailer without extensive brick-and-mortar operations?
3. Why has it been so difficult for competitors to duplicate Amazon's success?
4. With many websites offering price comparisons for booksellers and other e-tailers (e.g., http://www.booksprice.com), can Amazon maintain its customer base without always providing the lowest prices?

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Capstone 101: Buyer Behavior

Low prices and high quality can help sell products, but not in every market segment. Just as Porsche customers are interested primarily in performance and Motel 6 customers focus mainly on price, the products your firm offers in Capstone should fit with the market segments you are trying to serve. Companies price their products below the industry average, invest in new technology, fund high-end marketing campaigns, and incorporate costly quality enhancements. In doing so, their company margins erode because they end up providing customers with pricey features they do not need and are unwilling to pay for, or they fail to fund the most critical attributes to their customer base sufficiently. Trying to serve all segments with the best products at the best products is unrealistic.

Knowing your customers is critical. If your strategy calls for cost leadership, then expenditures in other areas, such as advertising or new-product development, should be modest and focused. Companies seeking to serve specific buyers' needs should tailor their products to the group's needs while avoiding unnecessary expenditures. Most simulations provide feedback after each round on market segments within the industry and how well each firm addresses them. Understanding and incorporating this feedback into strategic decisions is essential for success.

Notes

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