UNIT-2 Marketing Environment

Learning Outcomes
By the end of this unit the learner will be able to:
✓ **Understand the meaning of ‘marketing environment' both in terms of micro environment and macro environment.**

Unit 2

Marketing Environment

It is not possible for an enterprise to function in a vacuum. All companies are bound by laws and liabilities, customers, pressure groups, competitors and public bodies. All these entities make up the marketing ecosystem, within which a company must operate. Considering that marketing is the intersection connecting the establishment and the world at large, working within this framework is a huge part of the marketer's job. This suggests that the marketing guidelines of any organization must be seen as functioning inside a multifaceted and swiftly evolving environment. If an organisation is to reach its target, all these outside factors must be scrutinized and, if the need arises, answered to.

The Marketing Environment

The marketing environment comprises a complicated array of challenges and opporrtunties for the company, and can at times be tricky to classify. In general, the marketing environment can be divided in two categories:

- The external environment
- The internal environment

The external environment deals with all that is going on *outside* the organization, while the internal environment deals with all marketing features that take place *inside* the organization. Frequently, establishments focus too much attention on the outside factors instead of the internal ones, though both are of equally high importance. There are two essential methods of handling environmental factors: proactive and reactive. The manager dealing with **reactive** factors believes them to be out of control, and hence will make adjustments to marketing plans to suit the changes as they occur. The manager dealing with **proactive** factors will make efforts to alter the organisation's environment, with the belief that the majority of the factors are controllable or can, at least, be influenced somehow.

The External Environment

The external environment of an organization can be further divided into two parts: **micro-environment** includes factors that are close to the organization, while **macro-environment** includes factors which are widespread in society at large. Micro-environmental factors are made up of things like customer base, warehouse locations and unsympathetic pressure groups against a firm found in a given area. Some micro-environmental factors, such as accessibility of skilled labour, overlap the internal environment of the firm. Macro-environment factors can include things like government, legislation, competition from abroad, currency fluctuations and even changes in the climate.

The outside environment of a firm is usually not receptive to a firm's direct contro. At best, the marketers can only attempt to manipulate some of its elements, responding in the best way to bypass the dangers and utilize the opportunities presented.

Situation Analysis

Managers must understand where they stand right now, if they are to be able to figure out where they are headed. Analyzing this requires studying the inner-wellbeing of an establishment *and* the outside environment inside which the firm functions. To take account of a firm's internal situation at the most basic level, managers can make use of SWOT analysis. SWOT translates to Strengths, Weaknesses, Opportunities, and Threats. Where weaknesses and strengths are issues explicit to the establishment, threats and opportunities are products of the external environment. The previously mentioned factors can be further divided, as detailed in Table 2.1.

Table 2.1 is not by any means all-inclusive. There is just as great a chance of a threat being turned into an opportunity: A technological advancement by a competitor for instance, can prompt a business to issue a takeover bid. Likewise, a new piece of litigation might give rise to a loophole that may be taken advantage of, leaving competitors forced to abide by the law and perhaps fall behind as a result.

TABLE 2.1 *Analysis with SWOT*

	Internal features	**External features**
Positive features	**Strengths** ▶ What are we best at? ▶ What scholarly properties do we own? ▶ What are our associations & coalitions? ▶ What skill sets does the workforce hold? ▶ What are our monetary resources? ▶ What is our influence over suppliers and intermediaries?	**Opportunities** ▶ Which external environment changes can be exploited? ▶ Which weak spots can we attack in our competitors? ▶ What new technologies can we use? ▶ Which new markets are available to us?
Negative features	**Weaknesses** ▶ What are we really bad at? ▶ Is our intellectual property obsolete? ▶ Is our workforce lacking any training? ▶ Where do we stand financially? ▶ Which associations & coalitions can be	**Threats** ▶ How can our competitors cause us harm? ▶ Which social changes can damage us? ▶ What kind of new litigation can adversely

	beneficial but we don't have?	affect us? ▶ What affect will economic rise or fall have on us?

STEP (Socio-cultural, Technological, Economic, and Political) Analysis - also written as PEST - is another beneficial method of examining the external atmosphere. Table 2.2 indicates the major alterations that take place under each heading.

STEP and SWOT methods of analysis are simply alternative approaches to observing the atmosphere and an establishment's standing in it. The external marketing atmosphere is further broken down into micro and macro-environments, as indicated in Figure 2.1

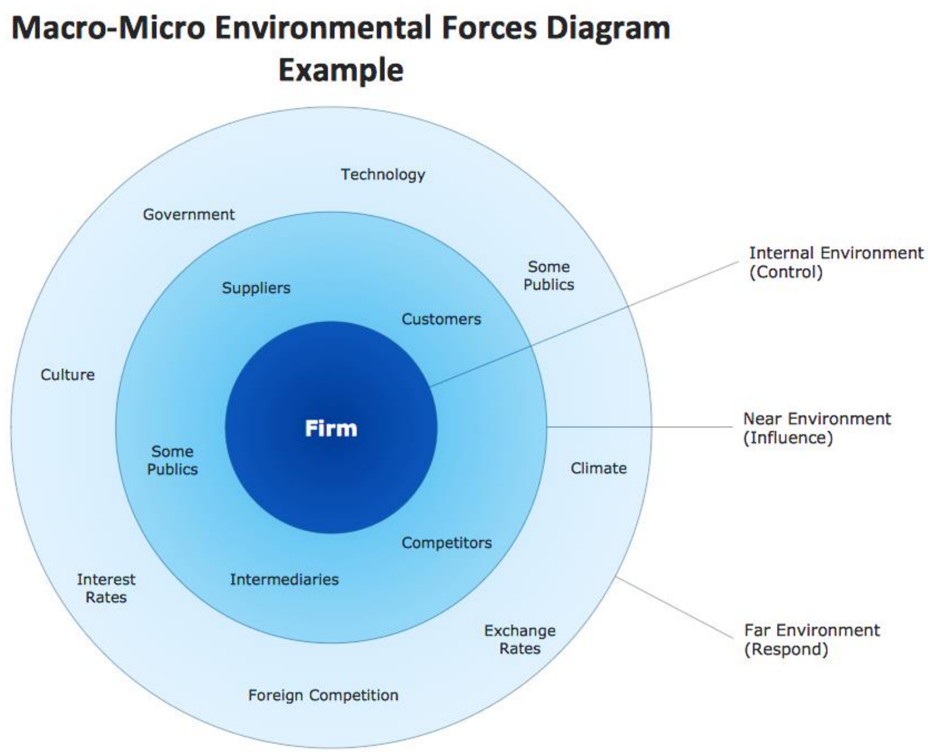

Fig. 2.1

The Micro-Environment

Factors impacting an organization closely make up the micro-environment, and they usually consist of the following aspects:

- The opposition;

- The clients;
- The suppliers;
- Some of the public;
- The intermediaries.

The Opposition

The opposition brings competition and their strategies affect marketing decisions.

Other than rivalry in price, there is the rivalry between product differentiations. Additionally, some competitors make use of dealer networks, brand names, or similar substitute products to the original. Some opposition advertising may even reveal actual or falsified attributes about their goods. If one firm advertises their product as using technology that is imported, another may claim having exported the item already. At times, the strategies of competitors may change what starts out as an environmental opportunity into a challenge.

In the most excessive situations, all organisations compete with each-other for the customer's cash; customers only have limited funds to spare. If a customer decides to purchase a costly house, they may have to forego expensive vacations and other expenses for the next couple of years. Due to the fact that there are normally more pressing competitors to address, these types of competitions are not given priority. It would be given more attention if the company was in a dominating (or in the last) position and would not be affected by an increase in the market.

Competitors may be establishments that are supplying parallel products, or they can be firms fighting for the customer's cash. Regardless, marketers must come up with a product that fulfils customer requirements in a better way than the goods offered by its competitors

Looking at Table 2.2, we see the various methods of competitive structures employed. In reality however, a majority of marketers have to deal with monopolistic competition. In this situation, each organisation attempts to gain a significantly large share of the market in order to control it. But in reality, it has no likelihood of being the lone supplier for a given product type. A more realistic approach for the largest organisation would be to work on increasing the market for a given product type, instead of attempting to grab a larger share of the existing market. An added benefit of this approach is that it will not come under the microscope of government-employed monopoly regulators. The Five Forces mock-up, which was created by Michael Porter, is a handy tool for competitor analysis.

These forces are as follow:

1. A supplier's bargaining power: the stronger the power, the greater the competitive pressures;
2. Customers' bargaining power: once again, the greater its strength, the stronger the environment of competition;
3. Threat of new players in the market;

4. The ever-present hazard of substitute services or products. This danger is usually only realized when it is too late;
5. The enmity among existing competitors.

The strongest point of Porter's Model is that it widens the notion of competition and allows marketers to see the bigger picture. Identifying competitors accurately is crucial. Simply put, the organisation's challengers are any establishments that attempt to meet the same requirements. This definition can become difficult when applied in real life.

TABLE 2.2 Competitive Structures

Competitive Structure Types	Description	Examples
Perfect competition	Too many suppliers, with none among them having sufficient power to influence the overall supply demands. Standardized goods. Effortless entry into the market. All consumers and suppliers are aware of what all others are doing. There are not many examples and while economists at times use this model for the purpose of discussions, marketers rarely operate within this type of an environment.	Non-regulated agriculture markets. Global money markets.
Monopolistic Competition	In this situation, one dominant supplier has obtained the hold of a large market share by using a differentiated marketing approach; however, others can still gain entrance and attempt to carve out their own market niche.	While PepsiCo and Coca-Cola hold the majority of the soft drinks market, other establishments are not prohibited from entry.
Oligopoly	Only a handful of corporations control the entire market. This generally happens when costs to enter a market are very high; frequently the market size is not sufficiently large to repay the entry capital costs for a new business. Oligopolies are repeatedly under	Manufacture of commercial aircraft. Detergent manufacturing businesses. Extracting and refining oil.

	investigation by government monopoly regulators, whose job it is to make certain that large entities do not abuse their power.	
Psi Monopoly	Monopolies are produced when one firm offers merchandise which has no closely related substitutes. This however, is just as much a rarity as having a perfect competition; the limited number of examples allowed to exist are known as 'natural monopolies' and if duplicated, would not be efficient.	A few of a country's national rail systems. Electric supply grids.

Customers

There is a near-endless variety of customers. A producer may be selling to the end-user, the industries, resellers, the government, or even buyers on a worldwide basis. Sales may be made to only one, several, or all of these customers. Each of these markets has exclusive characteristics and the seller should be familiar with 'the art of persuasion and making sales.' The synopsis, which is offered in customer profiling, influences marketing activities. The general public also has among them potential customers of a given company's goods. It will not be easy to recognize the individuals likely to become clients of the firm. The friendliness and generosity established by a firm at times sways people to beecome clients of the company. Firms usually make an effort to establish good public relations and build favourable reputations in society. Consumer action entities and the government are standout categories, whose disapproval should be avoided at all costs. Hence, the public at large makes up an element of the environment.

Suppliers

Since suppliers affect a company directly, they also form a part of the micro-environment. On the surface, it appears as if suppliers are outside the domain of the marketing department. But the fact is that the firm depends a great deal on suppliers' goodwill, and any public relations venture of value will seek to attract suppliers. By providing substandard goods or neglecting to meet delivery deadlines, suppliers can easily disrupt and damage the workings of an organization - this in turn will have a negative effect on the firm's clients.This holds more significance for some types of establishments than others (retailers will be more affected by the behaviour of suppliers than government offices, for instance). However, the majority of establishments have to keep an eye on their suppliers and make certain that the appropriate goods are being provided.

Existing beliefs about purchase and supply suggest that close relations should be maintained between suppliers and their clients. This should include frequent exchange of information and personal visits to each other's locations. This is covered within the logistics approach of the supply line, where the firm is considered to be a link in the scheme for making the right services and goods available at the right place and time. The system in totality produces the goods required by the consumer through transformation of raw materials. The philosophy depends on the integration of the activities of suppliers and purchasers, and reaching mutual understanding of each other's challenges.

Intermediaries

It is not usually possible for manufacturers to sell their services or goods to the consumer directly. Manufacturers make use of a variety of intermediaries for the movement of services or goods to consumers. Marketing intermediaries, such as dealers and distributers, may or may not choose to oblige. They typically give preference to reputable brands that are well-established. A new manufacturer may have a very hard time finding a dealer wishing to stock its merchandise. They expect newcomers to provide favourable terms like discounts, credit etc., and the newcomer may have a hard time fulfilling these requirements. There are additional intermediaries composed of warehousing agencies and transport organizations, etc., which deal with physical deliveries. Their costs, availability, efficiency and safety of deliveriees also have an effect on marketing activities.

Publics

Lastly, the firm's **public** also constitutes a portion of the micro-environment. The public is a general term which includes all entities that have an actual or possible bearing on the company. The public can include a wide range of audiences, including financial, governmental, local, media, citizen actions, and other audiences as well. Marketing activities dealing with these entities are known as (unsurprisingly) public relations. *Financial public* may apply to the shareholders controlling the finances of the firm, or banks that can apply pressure to make the firm act in a certain way. Such pressures can become so strong that they may even create a danger to the firm's very existence. Frequently, firms are pressured into doing things in ways they would prefer not to do. It is to avoid such issues that companies produce detailed reports for shareholders, along with impressive, encouraging company information for banks and other parties.

A firm's neighbours make up the *Local Public.* Such local organisations, or even individuals, can force the company to act for the neighbourhood - by fighting pollution or sponsoring a charity, for example. Gaining the local public's goodwill can help secure the company's existence in the area, allowing it to exist in harmony with the neighbours, as well as temporarily cut down on any local issues. One example is the Body Shop, which expects its franchisees to take part in local community projects like raising funds for local charities or offer supervision of play areas. Workers take part in such projects during company time; the good deeds help to improve company image and create positive feelings about the company among local residents. There is also an added benefit for the company workers, in that they feel they are a part of a caring institute; Body Shop workers are generally very positive about their employers. All elements in the micro-environment are relatively small and the organization in question must have influence over most of them, while being able to act efficiently with regards to the rest.

The Macro-Environment

The macro-environment comprises all major factors that impact not just the firm, but also its competitors and key fundamentals in the micro-environment. The macro-environment is more difficult to control than the micro-environment, but this is not to say that firms should ignore it; not being able to control doesn't mean not being able to *influence*. Frequently, the macro-environment can be swayed by good public relations conduct.

The main factors of the macro-environment are:

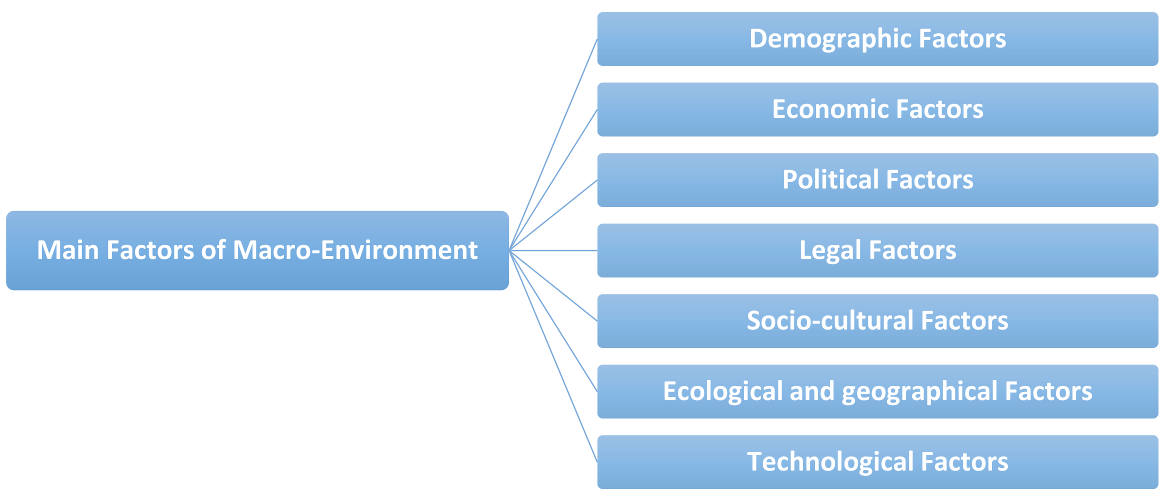

Fig. 2.2

Demographic Factors

Marketers take avid interest in the demographic makeup of a population. Things like a population's size, density, trends in movement, geographical breakup, age, birth and death rates, religious make-up, etc. The marketer also makes use of information relating to changing lifestyles, tastes and habits of the population. For instance, if both the husband and wife work, demand for goods that make running a household easier, such as convenience foods, are usually in higher demand.

Economic Factors

The condition of a country's economy, which is measured by its Gross National Product (GNP), Per Capita Income, and its position of the balance of trade establish its economic environment. Breakout of war, famine and natural disasters can all affect a nation's economic environment. For example, a favourable rainy season may lead to good agricultural production, which will generate greater income for those who depend on on agriculture. This in turn will allow these people to purchase more goods, thus increasing demand. By contrast, a severe rainy season mayy lead to poor agriculture output and decrease demand for things like fertilizer and other goods. Individual and corporate tax practices also affect the available inclome to spend on consumer goods.

Political Factors

Political Factors frequently affect a business: one recent example being the global trend of privatisation of previously government-owned business and utilities, and the movement away from workers' rights protection.

Organisations must be ready to respond to the existing political environment and revise their marketing strategy accordingly. British Telecom, Telstra in Australia and Deutsche Telekom have all readjusted their marketing techniques since privatization, and particularly after observing a massive upswing in competitiveness. All activities of the firms have been affected, starting with a cut in lead times between orders and obtaining new telephones, and going all the way to price cuts in response to cuts made by competitors – primariliy in the provision of in international and long-distance calls. British Telecom, in 2003, stood in fifth-place in terms of total money spent on advertising by any UK company.

Legal Factors

Legal Factors follow the lead of political factors, because governments tend to pass laws affecting businesses. Table 2.3, for example, shows some examples of litigation related to marketing matters currently in force in different countries. At times, judges pass judgements that re-interpret litigation and this influences business standings. An additional hurdle arises inside Europe due to EU legislation, which has precedence over national law, and has the potential to affect the way business is carried out in every EU country. European law and case law are independent of the politics of national governments, and so can be more difficult to predict. Business entities of course have to follow the law, but it is becoming more and more difficult to ensure what the law asks and the changes that may be imminent.

TABLE 2.3 *Samples of legislation involving Marketing*

Country	Legislation
France	Advertising alcohol on TV is illegal.
Germany	Advertising of toys related to wars and chance games is not allowed.
UK	While the voluntary spirits ban on TV advertising is no longer in effect, in accordance with all of EU, advertising tobacco is banned on TV.

Socio-Cultural Factors

Some cultural values are very deep-rooted in societies and do not change. There are also secondary cultural values which are prone to quick changes, while others, such as clothing, hair styles, etc. simply fade away. In any given culture, it is not necessary that all of the population will adopt the changes. Individuals adopt them to varying degrees. Religion is another vital factor of culture which has important influences for the marketer. For instance, in the Hindu religion, the cow is worshiped, so beef is not consumed. Hence, there is no demand for beef products - the culture of an area will has influence over the local eating habits to some degree. Culture further extends into other societal activities through determination of beliefs and values.

Ecological and Geographical Factors

Ecological and geographical factors have been cast into the spotlight over the past decade and a half. With the declining availability of raw materials, issues of waste disposal and problems of suitable locations for industrial complexes (especially those that have a significant impact on the environment) all seriously influencing the decision-making processes of businesses. When it comes to marketing, establishments have to take notice of public opinions on these factors and are usually subjected to pressurization of organised groups and individuals. The best way to take care of these problems is to start consultations with pressure groups as early as possible, to sort out any disagreements prior to overly committing resources. Companies making use of the societal marketing concept would do this routinely.

Technological Factors

Technological advances have become more rapid over recent years and have influenced all aspects of life. Totally new industries have surfaced: for instance, satellite TV stations, internet businesses, cable networks, virtual reality, digital music recordings and design systems aided by computers. These industries did not exist just a few decades ago. It appears that this technological change is likely to keep accelerating, and additional new industries will be forthcoming. The result will inevitably be that dated businesses will fade away, or at very least have to deal with competition from unforeseen directions. Recognising these kinds of developments in advance is very difficult, but it is not impossible.

The macro-environment additionally houses the remaining publics of an organisation.

- *Governmental Public* is when a company's actions are limited due to the passing of legislation and the establishing of exchange and interest rates by local, national and global agencies. Trade associations and lobbying can influence governmental publics.
- *Media Public:* A firm's reputation can be damaged or its marketing promoted through the news, advertising and features carried in the press, radio and television. Public relations divisions take great care to make certain the firm is portrayed positively by the media. A company may, for example, produce a press release about a sporting event it is sponsoring. This helps motivate a

favorable response from the public, and portrays a positive company image when the event is covered by the media.

- *The Citizen Action Public* is made up of pressure groups like Greenpeace or Consumers' Rights, which petition business for the purposes of better public life in general. Not all groups are formally organised; recently there has been a rise in localized pressure groups and protesters.

The Internal Environment

The Internal Audience is made up of the company employees. Even though workers are a part of the internal company environment instead of the external, activities aimed at the external environment frequently affect worker attitudes. Similarly, worker attitudes intrude on external audiences. At times, workers express a negative image of the establishment they are employed by and this is likely to affect general public perceptions. A company's internal environment is a small replica of the external environment. All companies have workers; together, they build a corporate culture that has its own exclusive language, traditions, customs and chain of command. Individuals and sub-groups within a company will have their own agendas; pressure groups develop, and the company creates its own laws and conventions.

According to the marketer, internal and external environments are equally important, since culture, hierarchy, rules and traditions form a significant part of the company's public image. When employees of a company go home, they socialise with friends and family and can convey a positive or negative image of the company.

Even at work, employees make contact with the firm's external audiences. Individuals found in the external audiences will consider the worker's remarks as authoritative and their words will have more influence, compared with those the marketing department creates with paid messages. To put it differently, if a company's workers speak poorly about the firm to outsiders, they will be believed and trusted more readily than any promotional campaign the company can create.

Staff loyalty can no longer be commanded and orders no longer guarantee obedience. Workers count on some level of autonomy during their daily routine and do not necessarily feel loyal to the employer, just because they are employed there. Hence, the workers of a firm make up their own private market; their loyalty and devotion is needed by the company, for which it pays the workers and provides security. Internal marketing is a process of making as certain as possible that workers understand the firm's strategic course of action, in order to realise that practicing those policies will be of benefit to them.

Further Reading:

- ✓ ***Marketing Environment, (2006), By Lena Fitzen***
- ✓ ***Assessing the Marketing Environment, (2010), By Diana Luck***