Marketing Environment

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ **Discuss the meaning of marketing environment both in terms of micro environment and macro environment.**

Marketing Environment

It is not possible for an enterprise to function in anempty space; 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 within. Considering that marketing is the intersection connecting the establishment and the world at large, working within this framework is a vast part of the marketer's job. Thissuggests 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 environment of marketing represents complicated array of hazards and options for the company, and at times be too tricky to classify. In general, the marketing environment canbe divided in two categories:

- The external environment
- The internal environment

The external environment deals with all that is going on outsidethe 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, while both are of equally great significance. 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 he will make adjustments to marketing plans to suit the changes in the air. 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 atmosphere 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. Few micro-environmental factors, such as accessibility of skilled labour overlap the internal atmosphere of firm. Macro-environment of a firm 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 control; at best, the marketers can only attempt to manipulate some of its elements, and respond in the best way that will bypass the dangers and utilize the opportunities presented.

Situation Analysis

Managers must understand where they stand currently if they have to be able to figure out where they are headed. Analyzing this requires studying the inner well being 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, while 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 us to make a takeover bid. Likewise a new piece of litigation might give rise to a loophole that may be taken advantage of leaving competitors stuck with abiding by the law.

***TABLE 2.1** Analysis withSWOT*

	Internal features	**External features**
Positive features	**Strong Points** 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 sway 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	**Weak Points** What are we really bad at? Is our intellectual real estate obsolete? Is our workforce lacking any training? Where do we stand financially?	**Fears** How can our competitors cause us harm? Which social alterations can damage us?

	▶ Which associations & coalitions can be beneficial but we don't have?	▶ What kind of new litigation can adversely affect us? ▶ What affect will economic rise or fall have on us?

STEP (Socio-cultural, Technological, Economic, and Political) Analysis, at times, it is also written as PEST, which 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 just 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 by Figure 1.1

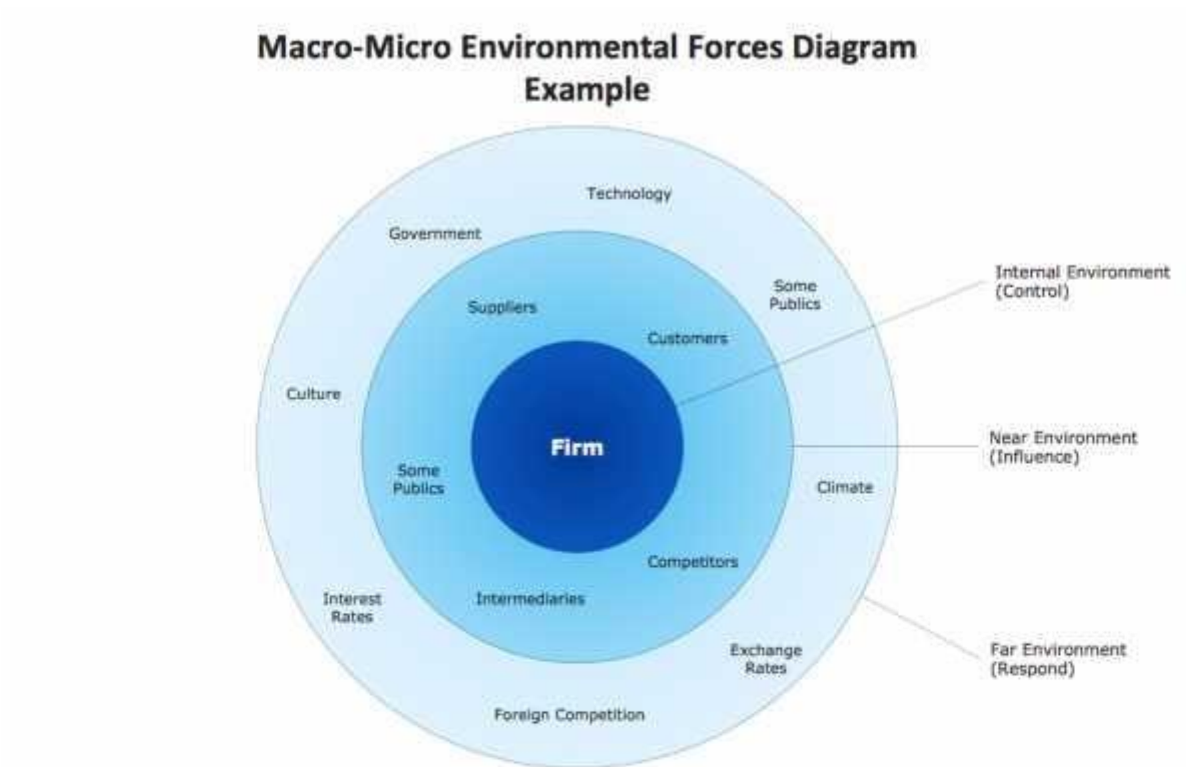

Fig. 1.1

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; and
- 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 network, brand name, or similar substitute products as 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 turn what starts as an environmental opportunity to a challenge.

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

Looking at Table 2.3 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 attempt is that it will not come under the microscope government employed monopoly regulators. The Five Forces mock-up, which was created by Michael Porter,is a handy tool for competitor analysis.

They are as follow:

1. A suppliers' 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 realisedwhen it is too late; and
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 broader picture. Identifying the 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 applying in real life.

TABLE 2.3Competitive 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 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.	Manufacture of commercial aircraft. Detergent manufacturing businesses. Extracting and refining oil.

	Oligopolies are repeatedly under investigation by government monopoly regulators, whose job it is to make certain that large entities do not abuse 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 large variety of customers. A producer may be selling to the end - user, the industries, resellers, the government, or even buyers, worldwide. Sales may be made to only one, several, or all of these customers. Each of these markets have 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 turn into clients of the company. Firms usually make an effort to establish good public relations and build favourable attitudes in a society. Consumer action entities and the government are extraordinary categories whose disapproval should be eluded at all costs. Hence, the public, at large, makes up an element of the environment.

Suppliers

Since suppliers affect a company closely, 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 the suppliers' goodwill and any public relations venture of value will attempt to engage suppliers. By providing substandard goods or neglecting to meet delivery deadlines, suppliers can easily disrupt and damage the workings of an organization and 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, majority of the establishments have to keep an eye on their suppliers and make certain that appropriate goods are being provided.

Existing beliefs aboutpurchase and supply is that close relations should be maintained between suppliers and their clients, with frequent exchange of information and personal visits to each other's location. 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 goods required by the consumer through transformation of raw materials. The philosophy depends on the integration of activities of suppliers and purchasers and reaching mutual understanding of each other's difficulties.

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 his merchandise. They expect newcomers to provide favourable terms like discounts, credit etc. and so the newcomer may have a hard time fulfilling these requirements. There are additional intermediaries composed of warehousing agencies and transport organizations, etc., who deal with the physical deliveries. Their costs, availability, efficient, and safe delivery also play an effect on marketing activities.

Publics

Lastly, the firm's **public** also constitutes as a portion of the micro-environment. The 'Public is a general term including all entities that have actual or possible bearing on the company. The public can include a wide range of things, namely the public audiences in the financial, governmental, local, media ,citizen actions, and other audiences, as well. Marketing activities dealing with these entities is known as (no surprise here) public relations. *Financial public* may include shareholders controlling 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 that they would prefer not to do. It is to avoid such issues that companies produce slick reports for shareholders and glorified and 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 cleaning pollution or sponsoring an area charity. Gaining the local public's goodwill will ease the company's existence in the area, and allow it to exist in harmony with the neighbours, as well as temporary 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 an area charity or supervision of play areas. Workers take part in such projects during company time; the deeds help to perk up company image and create good feelings about the company with area residents. There is an added benefit for the company workers, in that they feel that they are a part of a caring institute; Body Shop workers are generally very positive about their owners. All elements in the micro-environment are significantly small and the organization at the focus must have sway over most of them and must be able to act efficiently in regards to the rest.

The Macro-Environment

The macro-environment makes up all major factors that impact not just the firm, but its competitors as well and on fundamentals in the micro-environment. Macro-environment is more difficult to control than the micro-environment, but this is not to say that firms should sit idle; not being able to control does no translate into 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:

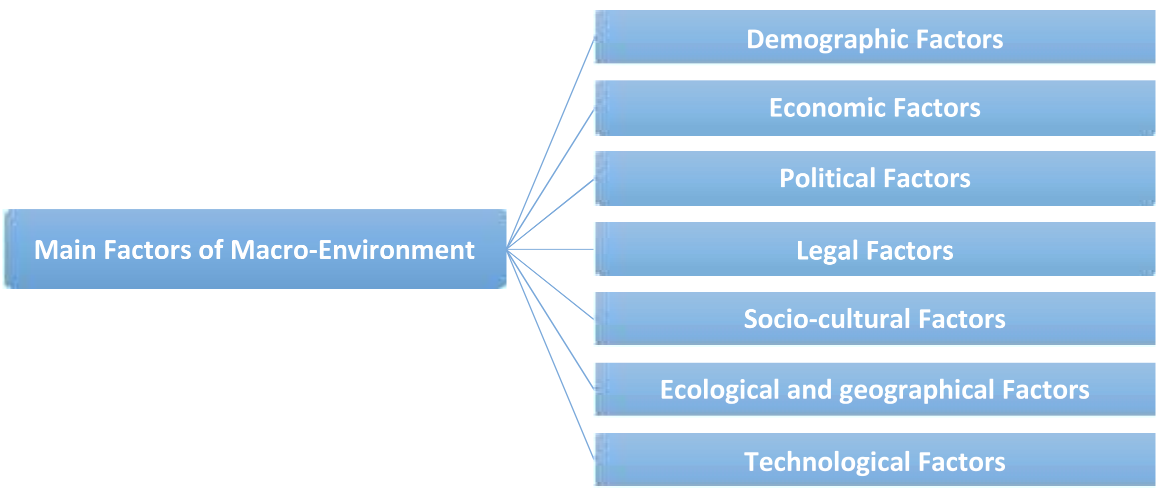

Fig. 1.2

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, and religious make-up, etc. The marketer also makes use of information relating to the changing life styles, tastes, and habits of the population. For instance, if both the husband and wife work, then, the demand for goods that make running a household easier, such as, partially cooked foods are in high demand.

Economic Factors

The condition of a country's economy, which is measured by its Gross National Product (GNP) and the Per Capita Income, along with the position of the balance of trade establish the country's economic environment. Break out of a war, famine, and natural occurrences all affect its economic environment. For example, a favourable monsoon season will lead to good agricultural production, which will generate greater income for people depending on agriculture. This in turn will allow these people to purchase more goods, thus, increasing demand. While a severe monsoon will lead to poor agriculture output and decreases the demand for things like fertilizer and other goods. The individual and corporate tax practices also uncover the earnings available to spend on consumer goods.

Political Factors

Political Factors frequently affect a business: one latest example is the global movement of privatisation of previously government owned business and utilities, and the movement away from worker's rights protection.

Organisations must be ready to respond to the existing political environment and revise the marketing strategy according to needs. British Telecom, Telstra in Australia, and Deutsche Telekom have all readjusted marketing techniques since privatization and particularly after observing the upswing levels of competitiveness. All activities of the firms have been affected, starting with a cut in the lead time between orders and getting a new telephone, all the way to price cuts in response to cuts made by competitors in international and long-distance calls. British Telecom, in 2003, stood in fifth place in terms of money spent on advertising.

Legal Factors

Legal Factors follow the lead of political factors because governments tend to pass laws affecting businesses. Table 2.4, for example, shows some examples of litigation related to marketing matters in current force in different countries. At times, judges pass judgements that end up re-interpreting litigation and this influences business standings. An additional hurdle inside Europe pops up due to EU legislation, which has precedence over national law, and has the potential to affect the way business is carried out in Europe. European law and case law are independent of politics of national governments and so more difficult to predict. No doubt business entities have to follow the law, but it is becoming more and more difficult to ensure what the law is stating, and the changes that may be imminent.

TABLE 2.4 *Samples of legislation involving Marketing*

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

Socio-Cultural Factors

Some nuclear cultural values are very deep rooted in societies and do not change. There are also secondary cultural values, which exist and are prone to quick changes, while others, such as, clothing hair styles, etc. simply fades 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 inferences 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. It is in this way that a culture of an area will carry weight on the eating habits to some degree. Culture further saturates into other societal activities through determination of beliefs and values.

Ecological and Geographical Factors

Ecological and geographical factors have taken the front row over roughly 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, ones with significant impact on environment), all seriously influence the decision making basis of businesses. When it comes to marketing, establishments have to take notice of public opinions on these factors and are usually subjected to compulsion of organised factions and individuals. The best way to take care of these problems is to start consultations with the pressure groups to sort out any disagreements prior to overly committing resources; companies making use of societal marketing concept would do this routinely.

Technological Factors

Technological advances has become more rapid in recent years and have influenced all aspects of life. Totally new industries have surfaced: for instance, satellite TV stations, internet, cable networks, virtual reality and CD recordings, and design systems aided by computers. These industries did not exist two decades ago. It appears that this technological change is likely to keep increasing, and additional new industries will be forthcoming. The net result naturally, will be that the aging businesses will fade away, or at the very minimum have to tackle competition from unforeseen venues. Recognising these 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 establishing 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 Relation divisions take great care and make certain the firm is portrayed positively by the media. A company may for example, give a press release about a sporting event it is sponsoring. This helps to create a

favorable response from the public, and portrays an affirmative company image when the event is transmitted.

- *The Citizen ActionPublic* ismade up of pressure groups like Greenpeace or Consumers' Rights and they petition manufacturers to enrich public life in general. Not all groups are formally organised; recently there has been a rise in localized pressure clusters and protesters.

The Internal Environment

The Internal Audience are 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 intrude on 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 the general public perceptions. A company's internal environment is a small replica of the external environment. All companies have workers; altogether, they build a corporate culture that uses its 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 do form a significant part of the company's public face. When employees of a company go home for the day, they socialise with friends and family and can leave behind a positive or negative image of the company.

Even at work, the 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 affects will have more influence compared with what the marketing department can create with paid messages. To state it differently, if a company's workers speak poorly about the firm to outsiders, they will be believed more readily than any promotional campaign the company can create.

Staff loyalty can no longer be commanded and orders no longer ensure obedience. Workers count on some autonomy during their daily routine and do not necessarily feel loyalty 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, by which it pays the workers and provides security. Internal marketing is a procedure of making as certain as possible that workers understand the firm's strategic course of action and should 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***