**CHAPTER TWO**

**The Marketing Environment**

The marketing environment represents a complex array of threats and opportunities for the organization, and can sometimes seem difficult to categorize. Generally speaking, the marketing environment can be divided into two areas: the external environment and the internal environment. The external environment consists of all the factors outside the organization that provide opportunities or pose threats to the organization. On the other hand, the internal environment refers to all the factors within an organization, which impart strengths or cause weaknesses of a strategic nature. The environment in which an organization exists can be, therefore, described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. The systematic approach to understanding the environment is the SWOT analysis. Business firms undertake SWOT analysis to understand the external and internal environment. SWOT is the acronym for strengths, weaknesses, opportunities and threats.

Internal environment is controllable because they are under the control of the firm’s management. For example:

1. **Human resource**: The characteristics of the human resources like skills, quality, morale, commitment, attitude, etc. could contribute to the strength or weakness of an organization.
2. **Company image and brand equity**: the image of the company matters while raising finance, forming joint ventures or other forms of alliances, soliciting marketing intermediaries, entering purchase or sales contracts, launching products, etc.
3. **R&D and technological capabilities** are among other things that increasingly determine a company’s ability to innovate and compete in the market.
4. **Marketing mix**: These are the company’s 4 P’s.

**External environment analysis**

The external environment consists of two further divisions: factors close to the organization (called the micro-environment), and those factors common to society as a whole (the macro environment).

Note: A major purpose of environmental scanning is to discern new marketing opportunities and an environmental threat.

Figure 2.1: Internal and external environment

**The micro Environment**

The micro environment consists of the actors in the company’s immediate environment that affects the performance of the company. These include the company, suppliers, marketing intermediaries, competitors, customers and the publics.

**i) The company:** In designing marketing plans, marketing management takes other company groups into account-groups such as top management, finance, research and development (R&D), purchasing, operations, and accounting. All these interrelated groups form the internal environment. Top management sets the company's mission, objectives, broad strategies, and policies. Marketing managers make decisions within the strategies and plans made by top management. Marketing managers must work closely with other company departments. Other departments have an impact on the marketing department's plans and actions. And under the marketing concept, all of these functions must "think consumer." They should work in harmony to provide superior customer value and satisfaction.

**ii) Suppliers**: They are those who supply the inputs like raw materials and components to the company. Developments in the suppliers’ environment can have a substantial effect on the company’s marketing operation. To smooth the functioning of the business, there must be a reliable source of supply. Uncertainty regarding the supply or other supply constraints often compels companies to maintain high inventories causing cost increases. In order to minimize supply costs, nowadays companies find it advantageous to integrate backward or forward (vertical integration). Backward- integration is when a company acquires one or more of its suppliers to gain more control on strategic resources and generate more profit. Forward - integration is when the business acquires some wholesalers or retailers especially if they are highly profitable.

The supply management assumes more importance in a scarcity environment. Company purchasing agents must establish win-win r/ships with suppliers. Company purchasing agents must know how to wine and dine “suppliers” to obtain favorable treatment during periods of shortages. It is very risky to depend on a single supplier because a strike, lockout, and other events can interfere with the fulfillment of delivery promise to customers and lose sales in the short –run and damage customer goodwill in the long run. Hence, multiple sources of supply often help reduce such risks.

**iii) Customers:** As it is often exhorted, the major task of a business is to create and sustain customers. A business exists only because of its customers. As a marketing concept clearly puts it forward, “customer is a king.” Without customer, there will not be demand. Without demand, there will not be a business because a firm produces its product for market, not for consumption by itself. Monitoring customer sensitivity is, therefore, a prerequisite for the business success.

A company may have different categories of consumers like individuals, households, industries, and other commercial establishments and governments and other institutions. Just as it has been said for suppliers, depending on a single customer is often too risky because it may place the company in a poor bargaining position, apart from the risks due to the customer’s switching over to the competitors of the company.

In general, customers are group of people that purchase the product of a firm repeatedly. They affect the

sales volume of the firm through their changing preference and tastes. Customers can force the firm to

reduce prices and improve the quality of the products.

**iv) Competitors**: The firm’s competitors include not only the other firms that produce and market the same or similar products, but also all those who compete for discretionary income of the consumers. For example, the competition for a company’s TV set may come not only from TV manufacturers, but also from two wheelers, refrigerators, cooking ranges, stereo sets and so on. If the consumer decides to go in for one of the above items, obviously he is not going to buy a TV set. The competitors pricing policy also may affect demand for the company’s product. Competitors can therefore be either firms supplying similar products or firms competing for the consumer’s hard-earned money, but either way marketers need to provide a product that meets consumers’ needs better than the products offered by the competition.

**v)** **Marketing intermediaries:** are the firms that aid a company in promoting, selling and distributing its goods to final buyers. The marketing intermediaries are the middlemen such as agents and merchants who help the company find customers.

Physical distribution firms such as warehouses and transportation firms assist the company in stocking and moving goods from their origin to their destination.

Marketing service agencies such as ads agencies, marketing research firms, media firms and consulting firms assist the company in targeting and promoting its products to the right markets.

Financial intermediaries such as banks and insurance companies finance marketing activities and insure business risks.

Marketing intermediaries are, therefore, necessary links between the company and the final consumers. A dislocation or disturbance of this link, or the wrong choice of the link, may cost the company very heavily.

**vi) Publics:** A company may encounter certain publics in its environment. A public is any group that has an actual or potential interest in or impact on an organization’s ability to achieve its objectives. Media publics, citizens’ action publics, and local publics are some examples. Such publics seriously affect some companies. For example, some companies, which do not produce their products according to their promise on their ads, are under attack by media public. Media public may enforce the companies to bring down the share price of the company by tarnishing its image. Local publics also affect many companies. Actions by local publics on this issue have caused these companies to suspend operations and/or take pollution abatement measures.

However, it is wrong to think that all publics are threats to business. Some publics are opportunities for business. For example, media public may be used to disseminate and communicate useful information about the business and its products. There must be, therefore, fruitful cooperation between a company and local publics so that there should be mutual benefit.

**The macro environment**

The macro-environment includes the major forces that act not only on the firm itself, but also on its competitors and on elements in the micro-environment. The macro-environment tends to be harder to influence than does the micro-environment, but this does not mean that firms must simply remain passive; the inability to control does not imply an inability to influence. Often the macro-environment can be influenced by good public relations activities. Macro environmental forces include the demographic, economic, physical environment, technological, political, and cultural forces. The macro forces are, generally, more uncontrollable than the micro forces.

**i) Demographic Environment:** The first environmental factor of interest to marketers is population, because people make-up markets. Demographic factors such as size of population, population growth rate, age composition, life expectancy, family size, spatial dispersal, occupation status, employment pattern etc. affect the demand for goods and services. Marketing with growing population and income are growth markets. However, the decline in the birth rates in developed countries has affected the demand for the product. A rapidly increasing population indicates a growing demand for many products. High population growth rate also indicates an enormous increase in labor supply. In developed countries, labor shortage and rising wages encouraged the growth of labor saving technologies and automation. They should therefore, follow capital-intensive technology. Nevertheless, most developing countries of today are expressing a population explosion and a situation of labor surplus. The governments of developing countries encourage labor-intensive technology of production in their respective countries. Capital –intensive methods, automation and even rationalization are opposed by labor and many sociologists, politicians and economists in these countries. The population growth rate, thus, is an important environmental factor, which affects business if supported by purchasing power.

**ii) Physical and Technological environment:** Physical factors such as geographical factors, weather and climatic condition may call for modifications in the product etc. to suit the environment because these environmental factors are uncontrollable. For example, ESSO adapted its gasoline formulations to suit the weather conditions prevailing in different markets.

Business prospects depend on the availability of certain physical facilities. The sale of TV set is limited by the extent of coverage of the telecasting. Similarly, the demand for refrigerators and other electrical appliances is affected by the extent of electrification and the reliability of power supply. The demand for LPG gas stoves is affected by the rate of growth of gas connections.

Technological factors sometimes pose problems. A firm that is unable to cope with the technological changes may not survive. Furthermore, the differing technological environment of different markets or countries may call for product modifications. For example, many appliances and instruments in the USA are designed for 100 volts but this needs to be converted to 240 volts in countries, which have that kind of power system. The demand for some products can also increase with the development of technology. For example, voltage stabilizers help the sale of electrical appliances in markets characterized by frequent voltage fluctuations.

**iii) Natural Environment:** Geographical and ecological factors such as natural resource endowments, weather and climatic conditions, topographical factors, location aspects in the geographical context, port facilities, etc. are all relevant to business. Differences in geographical conditions between markets may sometimes call for changes in marketing mix. Geographical and ecological factors also influence the location of certain industries. For example, industries with high material index tend to be located near raw material sources. The location of some industries is affected by the climatic and weather conditions. The example is the cotton textile industries. Topographical factors may affect the demand pattern. For example, in hilly areas with a difficult terrain, Jeeps may be in greater demand than other cars.

**iv) Economic Environment**: Economic conditions, economic policies and economic system are the important external factors that constitute the economic environment of a business.

The economic conditions of a country – for example the nature of economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets, etc. are the very important determinants of business strategies.

In a developing country, the low income may be the reason for the very low demand for a product. The sale of a product for which the demand is income –elastic naturally increases with an increase in income. Nevertheless, the firm is unable to increase the purchasing power of the people to generate a higher demand for its product. The only thing the firm can do is that to reduce the price of the product to increase the demand and sales. To reduce the price of the product, there must be reduction in the cost. The reduction in the cost of production may have to be effected to facilitate price reduction. It may be necessary even to invent or develop a new low cost product to suit the low-income market. For example, Colgate company designed a simple, hand-driven, inexpensive ($10) washing machine for low-income buyers in less developed countries. National Cash Register Company also took an innovative step by developing a crank –operated cash register that would sell at half the cost of the modern cash register and this was well received in a number of developing countries. In general, in countries where investment and income are steadily and rapidly rising, business prospects are generally bright, and further investments are encouraged.

**The Economic policy**: The economic policy of the government has a very great impact on business. Some types or categories of business are favorably affected by government policy, some adversely affected, while it is neutral in respect of others. For example, a restrictive import policy, or a policy of protecting home industries, may greatly help the import competing industries. On the other hand, the liberalization of the import policy may create difficulties for such industries.

An industry that falls within the priority sector in terms of government policy may get a number of incentives and other positive support from the government, whereas those industries, which are regarded as inessential, may have the odds against them.

The government’s policy about the concentration of economic power may be to the core sector, the heavy

investment sector, the export sector and backward regions. For example, an industrial undertaking may be able to take advantage of external economies by locating itself in a large city. However, the government policy may be to discourage industrial location in large cities and constrain or persuade industries to go to the backward areas. From the point of view of an industrial undertaking, a backward area location may have many disadvantages. Nevertheless, the incentives available for units located in these backward areas may compensate them for these advantages.

**Economic System**: The scope of private business depends, to a large extent, on the economic system. There are different economic systems in the world. They are the free market economy or capitalist economies, centrally planned economies, and the mixed economies.

**v) Political and Government Environment:** Political environment has a close r/ship with the economic system and economic policy. In most countries, apart from those laws that control investment and related matters, there are a number of laws that regulate the conduct of the business. The laws cover such matters as standards of product, packaging, promotion, etc. In many counties, with a view to protecting consumer interests, regulations have become stronger. Regulations to protect the purity of the environment and preserve the ecological balance have assumed great importance in many countries. Some governments specify certain standards for the products (including packaging) to be marketed in the country. Some governments even prohibit the marketing of certain products. In most nations, promotional activities are subject to various types of controls. For example, a media ad is not permitted in Libya. Several European countries restrain the use of children in commercial ads. In Muslim countries, the ad of alcoholic liquor is prohibited. Ads of cigarette must carry the statutory warning that cigarette smoking is injurious to health. Ads of baby food must necessarily inform the potential buyers that breast-feeding is the best.

**vi) Socio-cultural Environment:** The socio-cultural fabric is an important environmental factor that should be analyzed with formulating business strategies. The cost of ignoring the customs and traditions, taboos, tastes and preferences, etc., of people could be very high.

The buying and consumption habits of the people, their language, beliefs and values, customs and traditions, tastes and presences, education are all factors that affect business.

For a business to be successful, its strategy should be the one that is appropriate in the socio-cultural environment. The marketing mix will have to be designed as best to suit the environmental characteristics of the market. For example, in Thailand, Helene Curtis switched to black shampoo because Thai women felt that it made their hair look glossies. Nestle, a Swiss multinational company, today brows more than forty varieties of instant coffee to satisfy different national tastes.

When people of different culture use the same basic product, the mode of consumption, conditions of use, purpose of use or the perception of the product attributes may vary so much so that the product attributes, method of presentation, positioning, or method of promoting the product may have to be varied to suit the characteristics of different markets.

The difference in language sometimes poses a serious problem, even necessitating a change in a brand name. Chevrolet’s brand name “Nova” in Spanish means, “it does not go”. In Japanese, 3M’s slogan “sticks like crazy” translates as “sticks foolishly”. In some languages, Pepsi cola’s slogan “come alive” translates as “come out of the grave”. Therefore, before placing advertisement abroad, the language of that country must be fully known.

The values and beliefs associated with color vary significantly between different cultures. For example, Blue considered feminine and warm in Holland, is regarded as masculine and cold in Sweden.

Green is a favorite color in the Muslim world, but in Malaysia, it is associated with illness.

White indicates death and mourning in China, Korea, Eritrea, but in some countries, it expresses happiness and is the color of wedding- dress of the bride. E.g., in Ethiopia

Black indicates death and mourning in some countries such as Ethiopia, but in the Muslim world, women folks cover their body including their faces with the black cloth. Red is the popular color in communist countries; many African countries have national distaste for red color.

Social inertia and associated factors come in the way of the promotion of certain products, services or ideas. We come across such social stigmas in the marketing of family planning ideas; use of biogas for cooking, etc. in such circumstances, the success of marketing depends, to a very large extent, on the success in changing social attitudes or value system.

**vii) International Environment:** The international environment is very important from the point of view of certain categories of business. It is particularly important for industries directly depending on imports or exports and import competing industries. For example, a recession in a foreign marketing, or the adoption of protectionist policies by foreign nations, may create difficulties for industries depending on exports. On the other hand, a boom in the export market or relaxation in the protectionist policies may help the export- oriented industries. A liberalization of imports may help some industries, which use imported items, but may adversely affect import competing industries.

**THE END!**