

COURSE: FUNDAMENTALS OF MARKETING

LECTURE 4: MARKETING ENVIRONEMENT

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Lecture learning outcomes:

At the end of the lecture, you will be able to:

- i. Understand the marketing environment
- ii. Discuss internal marketing environment
- iii. Examine external marketing environment

MARKETING ENVIRONEMNT

No business operates in a vacuum. Decisions are made within a context of competition, customer characteristics, behaviour of suppliers and distributors, and of course within a legislative and social framework. People working within organisations are contributing to the welfare of society and of each other and obtaining satisfaction of their own needs in return: this complex network of exchanges results in a better standard of living for everybody.

From a marketing viewpoint, managing the exchange process between the firm and its customers comes highest on the list of priorities, but it would be impossible to carry out this function without considering the effects of customer-based decisions on other people and organisations. A stakeholder is any individual or organisation affected by the firm's activities – neighbours, suppliers, competitors, customers, even governments – and all of these will have some input into marketing decisions, either directly or indirectly

Meaning of Marketing Environment

The marketing environment refers to all internal and external factors, which directly or indirectly influence the organization's decisions related to marketing activities. Internal factors are within the control of an organization; whereas, external factors do not fall within its control. The external factors include government, technological, economical, social, and competitive forces; whereas, organization's strengths, weaknesses, and competencies form the part of internal factors.

Marketing system of every business organisation is influenced by a large number of controllable and uncontrollable factors that surround the company. So the marketing system of a company must have to operate within the framework of the

environmental forces. According to Philip Kotler, **a company's marketing environment consists of the actors and forces outside of marketing that affect marketing management's ability to develop and maintain successful transactions with its target consumers**

Marketers try to predict the changes, which might take place in future, by monitoring the marketing environment. These changes may create threats and opportunities for the business. With these changes, marketers continue to modify their strategies and plans.

FEATURES OF MARKETING ENVIRONMENT

Today's marketing environment is characterized by numerous features, which are mentioned as follows:

Specific and General Forces: It refers to different forces that affect the marketing environment. Specific forces include those forces, which directly affect the activities of the organization. Examples of specific forces are customers and investors. General forces are those forces, which indirectly affect the organization. Examples of general forces are social, political, legal, and technological factors.

Complexity: It implies that a marketing environment includes number of factors, conditions and influences. The interaction among all these elements makes the marketing environment complex in nature.

Vibrancy: Vibrancy implies the dynamic nature of the marketing environment. A large number of forces outline the marketing environment, which does not remain stable and changes over time. Marketers may have the ability to control some of the forces; however, they fail to control all the forces. However, understanding the vibrant nature of marketing environment may give an opportunity to marketers to gain edge over competitors.

Uncertainty: It implies that market forces are unpredictable in nature. Every marketer tries to predict market forces to make strategies and update their plans. It may be difficult to predict some of the changes, which occurs frequently. For example, customer tastes for clothes change frequently. Thus, fashion industry suffers a great uncertainty. The fashion may live for few days or may be years.

Relativity: It explains the reasons for differences in demand in different countries. The product demand of any particular industry, organization, or product may vary depending upon the country, region, or culture.

Types of Marketing Environment

The sale of an organization depends on its marketing activities, which in turn depends on the marketing environment. The marketing environment consists of forces that are beyond the control of an organization but influences its marketing activities. The marketing environment is dynamic in nature.

Therefore, an organization needs to keep itself updated to modify its marketing activities as per the requirement of the marketing environment. Any change in marketing environment brings threats and opportunities for the organization. An analysis of these changes is essential for the survival of the organization in the long run.

Micro Environment

Micro environment refers to the environment, which is closely linked to the organization, and directly affects organizational activities. It can be divided into supply side and demand side environment. Supply side environment includes the suppliers, marketing intermediaries, and competitors who offer raw materials or supply products. On the other hand, demand side environment includes customers who consume products.

Following are the forces of Micro Environment:

Organisation's Internal Environment: Organisations financial, production and human resource capabilities influence its marketing decisions to a large extent. For instance, while deciding about the sales targets, it is necessary to see whether the existing production facilities are enough to produce the additional quantities or not. If the existing facilities are not enough and expansion to plant and machinery is required, it is necessary to think about financial capabilities.

Suppliers: Suppliers are an essential part of every organization. It provides raw material to produce goods and services. Suppliers can influence the profit of an organization because the price of raw material determines the final price of the product. Organizations need to monitor suppliers on a regular basis to know the supply shortages and change in the price of inputs. A company can run its business successfully only if its suppliers supply material of good quality and on time.

Marketing Intermediaries: It helps organizations in establishing a link with customers. They help in promoting, selling, and distributing products. Market intermediaries are the intermediary parties that help a business to distribute its products in the market. The market intermediaries can be wholesalers, retailers, and distributors. All of these market intermediaries are an essential part of the business as they are the face of the company in the market and represent the products of the company in the market.

Marketing intermediaries include the following:

- a. **Resellers:** It purchases the products from the organizations and sells to the customers. Examples of resellers are wholesalers and retailers.
- b. **Distribution Centers:** It helps organizations to store the goods. A warehouse is an example of distribution center.
- c. **Marketing Agencies:** It promotes the organization's products by making the customers aware about benefits of products. An advertising agency is an example of marketing agency.
- d. **Financial Intermediaries:** It provides finance for the business transactions. Examples of financial intermediaries are banks, credit organizations, and insurance organizations.

Customers: Customers buy the product of the organization for final consumption. Customers are the most crucial component of the business. Customers are the target audience of the product, and the preference of customers influences all the marketing and business efforts of a company. The main goal of an organization is customer satisfaction. The organization undertakes the research and development activities to analyze the needs of customers and manufacture products according to those needs.

Competitors: The competitors are the other businesses that sell similar products as other products or are part of the same strategic group in the industry. It helps an organization to differentiate its product to maintain position in the market. Competition refers to a situation where various organizations offer similar products and try to gain market share by adopting different marketing strategies.

Customers: There are many types of customers. A firm may be selling directly to the ultimate users, (consumers) the resellers, the industries, the Government or international buyers. It may be selling to any one or all of these customers. Each type of consumer market has certain unique characteristics and the marketer should be fully acquainted with the art of persuading and selling to these consumers. The environment presented by customer profile will have a direct influence on these marketing activities.

Public: General public do take interest in the business undertaking. The company has a duty to satisfy the people at large along with competitors and the consumers. Public relation is certainly a board marketing operation which must be fully taken care of goodwill, favourable reactions donations and hidden potential fixture buyers are a few of the responses which a company expects from the public.

Public may be various types.

- i. **Press:** This is one of the most important group, which may make or break a company. It includes journalists, radio, television, etc. Press people are often referred to as unwelcome public. A marketing manager must always strive to get a positive coverage from the press people.
- ii. **Financial Public:** These are the institutions, which supply money to the company. eg: Banks, insurance companies, stock exchange, etc. A company cannot work without the assistance of these institutions. It has to give necessary information to these public whenever demanded to ensure that timely finance is supplied.
- iii. **Government:** Politicians often interfere in the business for the welfare of the society and for other reasons. A prudent manager has to maintain good relation with all politicians irrespective of their party affiliations. If any law is to be passed, which is against the interest of the company, he may get their support to stop that law from being passed in the parliament or legislature.
- iv. **General Public:** This includes organisations such as consumer councils, environmentalists, etc. as the present day concept of marketing deals with social welfare, a company must satisfy these groups to be successful.

Macro Environment

Macro environment involves a set of environmental factors that is beyond the control of an organization. These factors influence the organizational activities to a significant extent. Macro environment is subject to constant change. The changes in macro environment bring opportunities and threats in an organization.

i. Demographic Environment: Demographic environment is the scientific study of human population in terms of elements, such as age, gender, education, occupation, income, and location. It also includes the increasing role of women and technology. These elements are also called as demographic variables. Before marketing a product, a marketer collects the information to find the suitable market for the product.

Demographic environment is responsible for the variation in the tastes and preferences and buying patterns of individuals. The changes in demographic environment persuade an organization to modify marketing strategies to address the altering needs of customers. The demographic environment is a crucial component for business as the company design and builds its products based on the characteristics of the demographic environment.

ii. Economic Environment: Economic environment affects the organization's costs structure and customers' purchasing power. The purchasing power of a customer depends on the current income, prices of the product, savings, and credit availability.

The factors of economic environment are as follows:

- a. **Inflation:** It influences the customers' demand for different products. For example, higher petrol prices lead to a fall in demand for cars.
- b. **Interest Rates:** It determines the borrowing activities of the organization. For example, increase in interest rates for loan may lead organizations to cut their important activities.
- c. **Unemployment:** It leads to a no income state, which affects the purchasing power of an individual.
- d. **Customer Income:** It regulates the buying behavior of a customer. The change in the customer's income leads to changed spending patterns for the products, such as food and clothing.
- e. **Monetary and Fiscal Policy:** It affects all the organizations. The monetary policy stabilizes the economy by controlling the interest rates and money supply in an economy; whereas, fiscal policy regulates the government spending in various areas by collecting the revenue from the citizens by taxing their income.
- iii. **Natural Environment:** Natural environment consists of natural resources, which are needed as raw materials to manufacture products by the organization. The marketing activities affect these natural resources, such as depletion of ozone layer due to the use of chemicals. The corrosion of the natural environment is increasing day-by-day and is becoming a global problem.

The physical environment or natural environment involves the natural resources that are needed as input by the marketers and that are affected by marketing activities. Environmental concerns have grown steadily in recent years. Marketer should be aware of the trends like shortage of raw material, increased population and increased government intervention in natural resources. The management of the companies will have to understand their environmental responsibility and commit them self in the green marketing.

Following natural factors affect the marketing activities of an organization:

- a. **Natural Resources:** It serves as raw material for manufacturing various products. Every organization consumes natural resources for the production of its products. Organizations are realizing the problem of depletion of resources and trying best to use these resources judiciously. Thus, some organizations have indulged in de-marketing their products. For example, Indian Oil Corporation (IOC) tries to reduce the demand for its products by promoting advertisements, such as Save Oil, Save India.
- b. **Weather:** It leads to opportunities or threats for the organizations. For example, in summer, demand for water coolers, air conditioners, cotton clothes etc. increases while in winter, the demand for woollen clothes and room heaters rises. The marketing environment is greatly influenced by the weather conditions of a country.

c. **Pollution:** It includes air, water, and noise pollution, which lead to environmental degradation. Now-a-days, organizations tend to promote environment friendly products through its marketing activities. For example, the organizations promote the usage of jute and paper bags instead of plastic bags.

iv. **Socio-Cultural Environment:** Socio-cultural environment comprises forces, such as society's basic values, attitudes, perception, and behavior. These forces help in determining that what type of products customers prefer, what influences the purchase attitude or decision, which brand they prefer, and at what time they buy the products. The social-cultural environment varies from one region to another region. People living in one area might prefer a different type of product than the preference of the product of the people of any other region. Businesses are required to have in-depth knowledge of the social-cultural environment to design a product or service that is preferred by most people. The socio-cultural environment explains the characteristics of the society in which the organization exists. The analysis of socio-cultural environment helps an organization in identifying the threats and opportunities in an organization. For example, the lifestyles of people are changing day-by-day. Now, the women are perceived as an active earning member of the family. If all the members of a family are working then the family has less time to spend for shopping. This has led to the development of shopping malls and super markets, where individuals could get everything under one roof to save their time.

v. **Technological Environment:** Technology is one of the elements that have great potential to influence the business of an organization. It is dynamic, as it changes rapidly. Technology provides several threats and opportunities to the business environment. Technology contributes to the economic growth of a country. It has become an indispensable part of our lives. Organizations that fail to track ongoing technological changes find it difficult to survive in today's competitive environment. Technology acts as a rapidly changing force, which creates new opportunities for the marketers to acquire the market share. Marketers with the help of technology can create and deliver products matching the life style of customers. Thus, marketers should observe the changing trends in technology.

Following are the technological trends that affect the marketing environment:

a. **Pace of Technological Change:** It leads to product obsolescence at a rapid pace. If the pace of technological change is very rapid then organizations need to modify their products as and when required. On the other hand, if the technology is not changing at a rapid pace then there is no need for the organization to bring constant changes in the product.

b. **Research and Development:** It helps in increasing growth opportunities for an organization. Many organizations have developed a separate team for R&D to bring innovation in its products. Pharmaceutical organizations, such as Ranbaxy and Cipla, have started putting greater force in R&D and these efforts have led to great opportunities in global market.

c. **Increased Regulation:** It refers to government guidelines to ban unsafe products. Marketers should be aware of these regulations to prevent their violation. Every pharmaceutical organization takes the approval of the Drugs Controller of India, which lays down the standards for drugs manufacturing.

vi. **Political and Legal Environment:** Political and legal environment consists of legal bodies and government agencies that influence and limit the organizations and individuals. Every organization should take care of the fact that marketing activities should not harm the political and legal environment prevailing in a country. The political and legal environment has a serious impact on the economic environment of a country.

Various legislations affecting the marketing activities are as follows:

- a. Anti-pollution laws, which affect the production or manufacturing of various products.
- b. Customer legislation, which tries to protect the customer's interest

Significance for scanning the Marketing Environment

The business environment is not static. It is continuously changing with fast speed.

The marketing environmental analysis will help the marketer to:

- i. Become well acquainted with the changes in the environment.
- ii. Gain qualitative information about the business environment, which will help him to develop strategies in order to cope with ever changing environment.
- iii. Conduct marketing analysis in order to understand the markets needs and wants so as to modify its products to satisfy these market requirements.
- iv. Decide on matters related to Government-legal-regulatory policies in a particular country so as to formulate its strategies successfully amidst these policies.
- v. Allocate its resources effectively and diversify either into a new market segment or totally into a new business which is outside the scope of its existing business.
- vi. Identify the threats from the environment in terms of new competitors, price wars, competitor's new products or services, etc.; and prepare its strategies on the basis of that.
- vii. Identify the opportunities in the environment and exploit these opportunities to firm's advantage. These opportunities can be in terms of emergence of new markets;

mergers, joint ventures, or alliances; market vacuum occurred due to exit of a competitor, etc.

viii. Identify its weaknesses such as lower quality of goods or services; lack of marketing expertise; or lack of unique products and services; and prepare strategies to convert its weaknesses into strengths.

ix. Identify its strengths and fully exploit them in firm's advantage. These strengths can be in terms of marketing expertise, superior product quality or services, or giving unique innovative products or services.

5.Importance of Marketing Environment

The study of marketing environment is essential for the success of an organization.

The discussion of importance of marketing environment is as follows:

1. Identification of Opportunities: It helps an organization in exploiting the chances or prospects for its own benefit. For example, if an organization finds out that customers appreciate its products as compared to competitors' products then it might encash this opportunity by giving discounts on its products to boost sale.

2. Identification of Threats: It gives warning signals to organizations to take the required steps before it is too late. For example, if an organization comes to know that a foreign multinational is entering into the industry then it can overcome this threat by adopting strategies, such as reducing the product's prices or carrying out aggressive promotional strategies.

3. Managing Changes:

It helps in coping with the dynamic marketing environment. If an organization wishes to survive in the long run then it has to adapt to the changes occurring in the marketing environment

Difference between Macro and Micro Environment of Marketing

Every business organization is a part of the business environment, within which it operates. No entity can function in isolation because there are many factors that closely or distantly surround the business, which is known as a business environment. It is broadly classified into two categories, i.e. **microenvironment**, and **macro environment**. The former affects the working of a particular business only, to which they relate to, while the latter affects the functioning of all the business entities, operating in the economy.

The difference between macro environments and micro environments may be relevant to identifying the following table:

Point of difference	Macro-Environment	Micro-Environment
Meaning	External environment of an organization.	Internal environment of an organization.
Definition	Macro environment refers to the general environment that can affect the working of all business enterprises.	Micro environment is defined as the nearby environment, under which the firm operates.
Nature	Very complex.	Fewer complexes to perceive.
Elements	PESTLE, i.e. Political, Economic, Socio-cultural, Technological, Legal and Environmental.	COSMIC, i.e. Competitors, Organization itself, Suppliers, Market, Intermediaries and Customers.
The task of the marketer	Marketer interacts with, the elements prevailing outside the organization.	The marketer interacts with other functional areas of the organization.
Extent of control	Factors remain beyond the control of marketers.	Factors may be controlled to a large extent by a marketer.
Impact	It creates a huge impact on shaping marketing decisions.	Remains comparatively independent are shaping marketing decisions.
Function	Factors may create an opportunity or pose a threat to the marketing activities of an organization.	Factors reveal the capabilities of an organization to exploit the opportunities or to combat the threat through its marketing activities.
Influence	Indirectly and Distantly	Directly and Regularly

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