

COURSE: MBA-II SEMESTER

SUBJECT: MARKETING MANAGEMENT

TOPIC: MARKETING ENVIRONMENT



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INTRODUCTION

Marketing Environment refers to all the factors and forces that affect the business organization's ability to build and maintain successful relationships with its target customers. In other words, it includes all factors that have an effect on the strategies, policies and decisions of the organization.

According to Barry M. Richman and Melvyn Copen, "Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country"

The factors that constitute the environment can be divided into micro factors (elements that affect only the individual business organization) and macro factors (factors that affect the whole industry). The marketing environment in which the businesses operate is ever-changing. The success of business organizations depends to a large extent on how it interacts and aligns with the environment. If the marketing manager is slow in responding to changes in the environmental factors it can have an effect on the organization's short-term and long-term prospects. The marketing manager needs to continuously examine and monitor the changes in the environment. It can be done through environment scanning and environment analysis.

Environmental scanning is the process through which marketers gather data about various components of the environment. Scanning of the environment could be through secondary sources such as statistics by the government agencies, trade and business publications or through primary sources such as personal observation. Internet is being used increasingly as a scanning tool.

Environmental analysis is the process by which the marketing manager assesses and interprets the data gathered through environmental scanning. The data is assessed by the marketing manager on criteria such as accuracy, source, credibility relevance and comprehensiveness. Once assessed, the data is interpreted so that the marketing manager can understand the present state of the environment and expected changes can be predicted at a reasonable time. The business

organization through continuous scanning and analysis will be able to identify current and expected threats and opportunities.



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[A] Micro Marketing Environment

Those elements of the environment that impinge on an individual business organization or a particular industry but do not affect all businesses in all industries constitute the microenvironment. The factors constituting the micro environment are as follows:



1. The Company

All the departments in an organization from finance to manufacturing to purchases have the potential to positively or negatively impact the satisfaction level of consumers. As a result, the marketing department has to work closely with all the other departments so that they can identify ways by which each department can contribute in delivering exceptional customer value and superior customer satisfaction.

2. Suppliers

A business organization relies on other vendors and firms to supply raw materials, labor, utilities and equipments to produce and deliver products to their customers. A key supplier goes a long way in building a business organizations competitive advantage. The factors and events that affect the suppliers have the potential of affecting the business organization and ultimately the satisfaction level of customers. Losing an important supplier can disrupt the production schedule. The marketing department formulates its marketing strategy keeping the risk factors such as quality of supplies, supply chain costs, availability of raw materials etc in mind.

3. Marketing Intermediaries

Marketing intermediaries refers to the people and businesses like banks, financial institutions, venture capitalists, wholesalers, retailers, transportation companies, marketing research firms and

public relation firms that help the business organization to promote, sell, and distribute its products to final buyers. The marketing manager needs to take into the consideration the marketing intermediaries while formulating the strategies for the organizations

4. Customers

Customers refers to the individuals, households or organizations that purchases a product for use in the production of other products, or an organization that purchases a product for resale at a profit. Satisfaction of customers is the primary objective of any business. If a business organization does not have customers they can't sell anything. . However, all the customers of the organization are not same. The marketing managers need to study the needs of the customers on a continuous basis. They also need to anticipate how their need is developing so that they are able to meet the needs effectively

The marketers need to study 5 categories of customer markets

- Consumer Markets- It consists of individuals and households that buy products and services for their own personal use.
- Business Markets- these customers are popularly as business-to business customers or B-2-B customers. The products and services they buy are further processed or used in their internal business processes.
- Resellers- These customers purchase products and services to resell them to others with the motive of earning profits.
- Government Markets- It refers to government agencies who buy products and services to provide public services or to those who they deem need them.
- International Markets- these set of customers reside in other countries other than the country in which the business organization is in existence. These customers could be consumers, businesses, resellers as well as government.

Generally, a business organization sells its products and services to multiple markets. The marketing manger needs to have a separate marketing plan to sell their products and services to its distinct type of customers.

5. Competitors

Competitors of the organizations refer to all the business organizations that market or produce a similar product or a close substitute of the product manufactured by the organization. In the Indian business environment, no business organization can enjoy the position of monopoly because of cut throat competition. Moreover, globalization is promoting competition and making it difficult for domestic organizations to survive and win over the competitors. The actions and reactions of competitors have the ability to affect the performance of the business organization directly or indirectly. It is imperative for the organization to build its strategic advantage by identifying the weaknesses of the competitors and making it their own strength.

6. Public

Public refers to a group of individuals who have an actual or potential interest in or impact on an organizations ability to achieve its objectives. Public consist of the following:

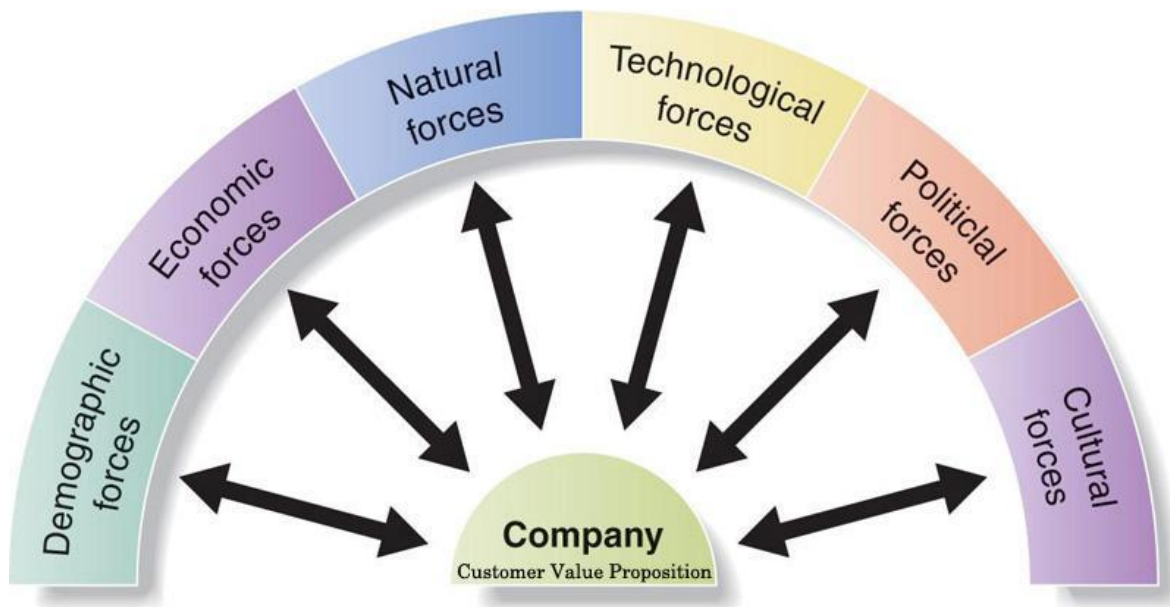
- *Media Public*: It consists of newspapers, blogs, magazines, journals, radio and television outlets. Any statement published by any of them about the business organization whether favorable or unfavorable has the ability to positively or adversely affect the brand image of the business organization. The business organization can maintain relationships with these extremely valuable public via PR media releases, VNR's, interviews and open invitations to review the products and services being offered by the organization.
- *Local Public*: It refers to individual that stay near the business organization and can affect the operations of the business. For e.g. if the factory of the organization emits pollution the local public may file a complaint against the business organization and compel it to close down the operation completely. The business organization should appoint a community relation officer whose job would be to meet with the local community on a regular basis, solve their problems and answer their questions.
- *Citizen Action Public*: It refers to government or independent agencies such as Bureau of Indian standards, Customs and exercise department, ISO (International standards organization), consumer organizations, environmental groups and minority groups that work towards protection of consumer interest. The business organization should be in

touch with the representatives of these groups to keep abreast with any of their concerns and problems that might have an affect on the organizations business and marketing practices.

- *Internal Public:* it refers to the employees that work within the business organization. For the smooth functioning of the organization it is essential for the business to maintain amicable and healthy industrial relationship with the employees. In large organizations employing thousands of workers, workers form labor unions. The business organization needs to skillfully tackle these labor unions so as to avoid the possibility of lock outs and strikes which may disturb the functioning of business.
- *Financial Public:* It refers to the banks, financial institutions, investment house and stock holders. The relationship that business organizations have with the financial public has a direct influence on the organizations ability to procure funds for investment in projects, in getting favorable repayment options and whether other publics will choose to enter into contracts with the organization.
- *Government Public:* It is very essential for the management of the business organization to take into consideration the policies and laws being made and being amended by the government and consult government officials, their lawyers and lobbyists. The management is required to keep an eye on the current state of rules regulations and laws that can have an effect on the production of the product being manufactured by the business organization, the day to day operations of the business and the techniques that be employed to sell the products being manufactured.
- *General Public:* The business organization needs to take into consideration the attitude and perceptions of the general public towards the products and services it offers along with the activities that they conduct in the marketplace. The way the general public perceives the business organization and its products services and brand has the ability to directly effect the buying habits of the consumers.

[B] Macro Marketing Environment

Macro environment consists of the factors and forces that are external and not specific to any particular industry. These factors are beyond the control of a specific business organization and the organization needs to adjust its activities and strategies in order to be successful in their operations. The factors constituting the macro environment are as follows:



1. Demographic Environment

Demography is the study of human population in terms of size, density, location, age, sex, race, occupation, and other statistics. Marketers have keen interest in demographic factors as it is the study of people and people make up markets. The demographic factors which have significant implications for marketers are as follows:

□ ***Size and growth rate of population:*** the population size and the growth rate of population are important determinants of demand for several products. Hugely populated countries like India and China generally serve as big markets for various products. India with 2.4% of the total land area of the world supports 16% of the world population. In India, the population has grown

nearly 4 times in the last 60 years. Illiteracy, early marriage of women, poverty leading to higher birth rate, limited adoption of family planning are some of the reasons that have led to rapid population growth in India. Moreover, development in the field of medicine has led to a fall in the death rate which also leads to increase in population.

□ **Age structure:** The age distribution indicates that on average that a person has to earn for himself and for one dependent also. The increased life span of the population is causing significant changes in the age distribution of population. Comparatively, India is a young nation where the dependency ratio is likely to decline and the proportion of the working population is likely to increase. This changing age structure could serve as a catalyst for growth of business organizations.

□ **Occupational Structure:** it refers to the division of population according to different occupations. Occupations can be classified into primary (includes agriculture, forestry, fishing, mining), secondary (includes manufacturing, building, construction etc) and tertiary (includes transportation, commerce, communication and other services). The occupational structure of India has always been dominated by agriculture, however, with economic progress there has seen a prominent shift towards secondary and tertiary activities. An understanding of the occupational distribution of the working population can help business organizations in designing and marketing their products effectively.

□ **Urbanization:** Urbanization refers to the movement of people from villages to town/cities where economic activities are centred around non-agricultural occupations such as trade, manufacturing industry and management. Urbanization is closely related to the industrial revolution and economic development. There is a progressive increase in the number and proportion of people residing in urban areas. The percentage of the urban population in the total population has gone up from 17.1% in 1951 to 27.8% in 2001 to 31.2% in 2011. However, India still continues to be predominantly rural. This movement of people opens a plethora of opportunities for marketers.

Apart from the above mentioned factors, characteristics such as the literacy level, the income level, the ethnic composition, and life expectancy family size also have an effect on the

working of the business organization. The demographic characteristics keep changing over time. It is essential for marketers to monitor these factors on a regular basis as they represent significant opportunities and threats for the business organization.

2. Economic Environment

The economic environment includes all those economic factors which have a bearing on the functioning of the business organization. Business is one unit of the total economy and the business organization depends on the economic environment for all the inputs that they need and to sell the finished goods. The factors that constitute the economic environment are

□ ***Nature of economic system:*** economic system refers to the organized way in which a country allocates its resources and apportions goods and services in the national community. Broadly the economic system is divided into three groups.

(a) **Capitalism:** also called the free market economy, it is characterized by free enterprise and profit motive. All decisions of the business with regard to production, distribution and consumption are based upon the price mechanism. The factors of production are owned privately and the production takes place at the initiative of the private enterprise.

(b) **Socialism:** also called a communist economic system, the state owns all the factors of production. All major decisions of the business with regard to production, distribution and consumption are made by the state through central planning.

(c) **Mixed Economy:** In a mixed economy like India, both public and private sectors coexist. Certain sectors of the economy are owned by the state and others are left for private enterprises. The private sector works for profit but under certain conditions and regulations imposed by the government.

□ ***Structural Anatomy:*** the structural anatomy consists of the structure of national output, the occupational distribution of the labour force, capital formation, composition of trade, investment pattern, five-year plans, the balance and imbalance between different sectors etc.

□ ***Role of government:*** the working of the business is greatly influenced by the policies such as fiscal policies, monetary policies, industrial regulations, import-export policies etc set by the

government. Any changes made by the government in any of the policies can have a positive or a negative effect on the working of the business.

□ **Markets:** The business organization's economic environment also includes the markets from which it buys and sells, raises funds, gets labour etc. The conditions in the market invariably influence the working of the business organization

3. Natural Environment

The natural environment or the physical environment refers to all the ecological and geographical forces and factors that influence the operations of business organization. Business organizations need to function within the framework of various aspects of nature such as climatic conditions, natural resources, changes in weather, topological conditions etc. Moreover, business organizations make use of natural resources as raw materials for their products and at the same time these natural resources are affected by the firm's marketing activities. There is a great concern over the deterioration of the natural environment particularly issues like greenhouse gases in the atmosphere due to the burning of fossil fuels, global warming and depletion of the ozone layer due to certain chemicals released by certain industries.

4. Technological Environment

Technology can be defined as the systematic application of scientific and other organized knowledge to practical tasks. Technological environment refers to the state of science and technology in the country, the rate of technological progress and the institutional arrangement for the development and application of new technology. The factors that determine the technological environment in a country are as follows:

- The facilities for technical education training and research in the country.
- The spirit for experimentation, innovation and enterprise in the human resources of the country.
- Incentives for research and development
- Compensation systems and promotion policies for persons engaged in scientific and industrial research.
- Laws for the protection of intellectual property rights.
- Access to foreign technology.

- Government participation in scientific and technological development.
- Monetary and fiscal concessions for intensive research and development in the private sector.

The technological environment is one of the fastest changing components of macro environment and includes forces that create new technologies, new products and marketing opportunities making it imperative for business organizations to adapt to changed technology in their systems and thus gain competitive advantage. The technology adopted by the business organization determines the type and quality of goods produced.

5. Political and Legal Environment

Political environment comprises the elements relating to government affairs. It serves as the regulatory framework within which the business needs to operate. The political and legal environment consists of the following constituents

- Constitution of the country
- Image of the country and its leaders
- The political party in power-its philosophy and ideology
- The nature and extent of bureaucracy, the influence of primary groups in the working of the business
- Political stability- the structure of military and police force, election system, law and order situation
- The foreign policies adopted by the country.

6. Socio-Cultural Environment

The social cultural environment of a country refers to the characteristics of the society in which a business organization operates. It consists of the following

- The demographic forces in terms of size, composition mobility
- Social institutions and groups
- Caste structure and family organization
- Educational system and the literacy rate
- Customs, attitudes, beliefs, values and life style
- Taste, preference of people and their buying behavior.

Socio cultural factors are very important in the formulation of marketing strategies. These factors have direct impact on the consumer's thinking and their buying behavior. The regional differences in values, traditions, languages, customs, social systems, habits, beliefs and religions make the social cultural environment even more complex. Marketers must therefore adjust their marketing strategies accordingly. For example, since cow is considered sacred in India, McDonalds had to stop offering the products containing beef and introduced products like McAlooTikki and Mc Spicy Paneer to meet the taste and preferences of Indian consumers. Product and brand preferences also differ from region to region. Keeping this in mind, Hindustan Uniliver Limited came out with different blends of tea under the same brand name to cater to the needs of consumers belonging to different regions.

Continuous monitoring of the socio-cultural environment is essential for a business organization so that they can understand the consumers better and fulfill their needs in the most effective manner.

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