

**UNIT II:MARKETING ENVIRONMENT**

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| <b>Unit Code:</b>                     | <b>UNIT TITLE: MARKETINGS ENVIRONMENT</b>              |  |  |   |
|                                       | Duration:  |  |  |   |
| <b>Location:</b>                      | <b>SESSION1: MEANING AND IMPORTANCE OF ENVIRONMENT</b> |  |  |   |
| Classroom<br>or<br>Company's premises | <b>Learning Outcome</b>                                | <b>Knowledge Evaluation</b>  | <b>Performance Evaluation</b>  | <b>Teaching and Training Method</b>   |
|                                       | 1. Meaning and importance of Environment in Marketing  | 1. Explain the meaning and definition of Marketing environment<br>2. Discuss static environment and dynamic environment in business.<br>3. Study 'Internal environment factors' and 'External environment factors' | 1. Understanding the term Marketing environment, static environment and dynamic environment<br>2. Distinguish between 'Internal environment factors' and 'External environment factors'<br>3. Evaluate the impact of 'Internal environment factors' (4 Ps) | <b>Interactive Lecture:</b><br>1. Introduction of Marketing environment, static environment and dynamic environment;<br>'Internal environment factors' and 'External environment factors'<br><b>Activity:</b><br>Differentiate the role of 4 Ps in different industries |
|                                       | 1. Meaning and steps in Environmental scanning         | 1. Describe the meaning and steps in Environmental scanning (ETOP)<br>2. Importance of Environmental scanning  | 1. Rationalize the Environmental scanning<br>2. Explain the significance of Environmental scanning for an organization   | <b>Interactive Lecture:</b><br>Discussion of ETOP profile and its importance for a firm<br><b>Activity:</b><br>Make ETOP  |

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|  |   |   |  | profile of an industry of your choice   |
| <b>SESSION 2: MACRO ENVIRONMENT FACTORS</b>  |   |   |  |   |
|  |   | 1. Discuss the meaning of Macro Environment in business<br>2. Detailed discussion on Demographic forces and Politico-legal forces |  | <b>Interactive Lecture:</b><br>Explain Macro environment Demographic factors Political and legal factors for business activity<br><br><b>Activity:</b><br>Distinguish Demographic factors Political and legal factors for an industry |
| 1. Economic forces<br>2. Natural or physical forces<br>3. Technological forces<br>4. Socio-cultural forces | 1. Acknowledge factors of macro environment<br>2. Enumerate the impact of Economic forces, Natural or physical forces, Technological forces and Socio-cultural forces | 1. Explicate various factors of macro environment, i. e. or physical forces, Technological forces and Socio-cultural forces       |  | <b>Interactive Lecture:</b><br>Clarification of physical forces, Technological forces and Socio-cultural forces<br><br><b>Activity:</b><br>Enlist <b>various</b> physical forces, Technological forces and Socio-                     |

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|   |  |  |  | cultural forces in an industry  |
| <b>SESSION 3: MICRO ENVIRONMENT FACTORS</b> |  |  |  |   |
|   | 1. Meaning and constituent factors of Micro Environment for firms- Suppliers, Marketing intermediaries, Competitors, Customers, General public | 1.Enumerate different components of Micro Environment for firms- Suppliers, Marketing intermediaries, Competitors, Customers, General public<br>2. Differentiate various categories of Suppliers, Marketing intermediaries, Competitors, Customers, General public | 1. Classify the main heads involved in Micro business environment<br>2.Differentiate various categories of Suppliers, Marketing intermediaries, Competitors, Customers, General public | <b>Interactive Lecture:</b><br>1.Acquaint students with different constituent factors of Micro Environment for firms- Suppliers, Marketing intermediaries, Competitors, Customers, General public<br><br><b>Activity:</b><br>1. Collect information on factors of Micro Environment for manufacturing firms and service firms |

*(Note: The location would depend upon the topic under discussion, wherein it will be the classroom for the theoretical interactions and the student will be required to visit field/retail outlet or the marketing department of an organization to observe and comprehend the concepts related to marketing.)*

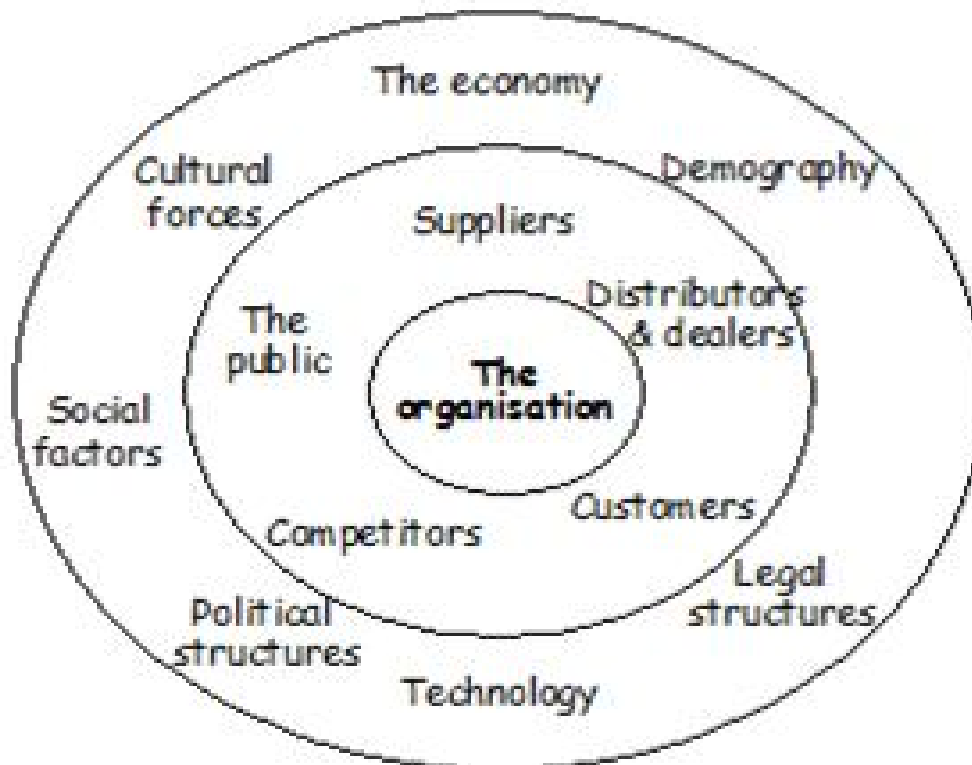
## UNIT II: MARKETING ENVIRONMENT

### *Learning Objectives*

After reading this unit, the students will be able to:

1. Explain the nature of the business environment
2. Recognize the relationship between the firm and its environment
3. Comprehend Environmental Scanning and its significance
4. Understand the factors determining macro environment in business
5. Analyse the micro economic factors of business environment
6. Explain the effects of demographic change on marketing
7. Discuss the nature of economic factors and sources of competition in business
8. Explain how technological change can transform industries

### SESSION I: MEANING AND IMPORTANCE OF ENVIRONMENT



## **INTRODUCTION:**

Marketing is an art of winning hearts of customers and persuading them to buy the firm's products and services. It creates value for customers and in return captures value/ profit from the customers. A company's ability to develop and maintain successful relations with its target customers, in fact, determines its growth. No business operates in a vacuum. The exchange process between the firm and its customers depends upon business decisions taken by the firm, and these decisions again, are affected by the marketing environment. Marketing environment consists of numerous factors and forces close to company which affect its ability to serve and satisfy its customers for their needs and requirements. The mix of these internal and external factors affect the way a firm operates. Firms need to understand the marketing environment so that they can make the most of positive factors and manage the impact of negative factors. Since a successful relationship with customers and stakeholders results into growth of business, now a day almost all the firms engaged in production and marketing, tend to identify, monitor and analyse these forces before taking decisions for the firm.

In production process, right from the product conceptualization till final production, every single person, group entity, event or factor- internal/ external, makes a specific impact on firm's choices. Similarly individuals or organizations, in capacity of customers, suppliers, competitors, even governments are also affected by the firm's activities. As these directly or indirectly give some input into marketing decisions taken by the firm. A firm plans production keeping in view the customers' needs, market characteristics, competing rivals, behaviour of suppliers and distributors for its product. It also gives due consideration to the legislative, social and cultural framework. By producing goods and services for people, the firm is committed to provide satisfaction to individuals and to increase the welfare of society. It is, in fact, the economic and social organ of society, so it must achieve its economic goal also.

According to M. Weimer, "Business environment is the climate or set of conditions -i.e., economic, social, legal, technological and political situations in which business activities are conducted". In the words of Keith Davis, "Business environment is the aggregate of all conditions, events and influences that surround and affect it." Philip Kotler defines "A company's marketing environment consists of the actors and forces outside marketing that affect its management's ability to build and maintain successful relationships with target customers."

There are few examples of external forces making an influence on a business:

- i. Fast technological changes as in the mobile industry or computer industry- introduction of new models and software and Apps
- ii. Uncertainty in political scenario, e.g., changing governments, change of finance minister or minister of concerned industries etc.
- iii. Changes in government's economic policies, e.g., licensing policy, taxation policy, inter-state or foreign trade policy.
- iv. Social changes, e.g., demand for reservation in jobs for minorities and women.
- v. Changes in fashion and tastes of consumers, e.g., preference for organic products ordemand for Khadi clothes in place of synthetic clothes by the customers etc.
- vi. Industrial conflicts caused by labour unrest- labour demanding higher wages and bonus and better working conditions, etc.
- vii. Globalization and Liberalization resulting in increased competition in the market with the entry of multinational corporations or start-ups



The environmental forces, at times, do not show any significant change. The environment of a business enterprise then is termed as stable or static environment. But modern organizations now a day are observing frequent changes, both internally as well as externally. The nature and degree of change is unpredictable. There are new products and designs being introduced to the market every day, invention of new techniques of production, new competitors, changes in ministries in the Government, changes in policies related to industry, taxation or banking that bring irregularity in the environment for the marketers. Such factors

creating instability make the business environment volatile and it is called a dynamic environment. The firm has to deal with the changes taking place 'within' and 'around' it. There are certain forces that can be controlled to a large extent by the management of a company. These are called internal environment factors, which are generally related to product design, volume of production, procurement of raw material, employment of labour, doses of financial investment and expansion plans of the firm. These changes can be introduced as per desire of the company's management. Besides this, the four P's of marketing i.e., product, price, place and promotion are also controllable. For example, if the customers expect some variations in the product offered by the firm, or price is high/ low for the target customers or the current medium of advertisement is not effective enough, the firm is quite free to switch over to required changes. These factors are a part of controllable environment making an impact on approach and success of its operations.

Another type of marketing environment, which generally cannot be guarded by the management of a company, is called uncontrollable environment. This also affects marketing policies and strategies of the firm to a great extent. The external uncontrollable environment consists of factors and forces at two levels namely- micro environment, and macro environment. Micro environment consists of the elements or forces that influence marketing and business directly. It includes suppliers, customers, intermediaries, competitors and the general public. Macro environment includes demographics, economic forces, political and legal forces, socio-cultural and technological forces, which are beyond the control of firm and affect business indirectly. The firm analyzes these environmental forces also, while taking various decisions in marketing.

# The External Marketing Environment



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## Environmental Scanning

The firm survives and thrives in an uncertain dynamic environment. An environmental scanning by the firm for recognizing potential opportunities and threats outside are very essential. It is, in fact, key to business success. The management has to systematically monitor the external forces to make strategy for the firm in the future. Through environmental analysis, the management can develop an Environmental Threat and Opportunity Profile (ETOP) which gauges the impact of various environmental forces on the firm. Threat may be like emergence of strong competition in the market by new firms and substitute products, and opportunity may occur in the form of path breaking new technology that may help to reduce cost and improve product quality of the firm. Environmental scanning is a process of scrutinizing and weighing up changes and trends in marketing environment by the firm. Before production and launching the product in the market the management has to make a good market research to explore various aspects like-

- a) **Nature of target customers-** Identifying the size of family, job profile, purchasing power and buying motive of the customer etc. For example before introducing Tata Nano to the automobile market these factors were ensured by the company.



- b) **The market trends**-Observing the position of company's previous products and services in the market, whether demand is likely to remain static, decrease or increase.
- c) **Economic, social and political trends**- Scanning the economic, social and political trends affecting productionnamely monetary policy, social changes, anti-pollution or energy conservation laws e.g., Tata Nano project faced strong opposition in Singur (West Bengal) both socially and politically.
- d) **Technology trends**- Anticipation oftechnological changes, i.e. whether new productmay become popular or what type of technology advancements are about to take place.
- e) **Competition in the market**- Analyzing the upcoming or existing competitors and what are their strengths and weaknesses.

### **Importance of Environmental Scanning-**

The business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. There is a close and continuous interaction between the business and its environment. An environmental scanningbecomes very crucial as it enables a management to identify present and future opportunities which it can exploit,orthreats and constraints which have tobe tackled. The observations made of the relevant aspects of the external environment provide the backdrop for internal strategies as well as forecasting of sales and profit trends. It is important for the management of a company to be fully aware of its external environment and develop plans and strategies to deal with the environmental forces. If a company is able to adapt to its environment, it would succeed in the long-run. But if it fails to become accustomed to its environment, it might fail in the long-run. For instance, bike producers of UK failed as they could not cope with the changes in the environment. On the contraryJapanese producers succeeded as they could evolve strategies and techniques to deal with changes in technological, economic, social and other environmental factors. In these competitive times marketing managers have to besmart and should have a proactive approach, i.e. planning for the future. They cannot afford to sit back waiting for the environment to change, and react to changes as they happen. Rather they have to identify and foresee changes in the environment, and plan their responses before the changes happen. Some of the organizations go even beyond and manage the environment in their own interests, as was the case of Ford, IBM, Sony, McDonalds and Microsoft.

Environmental scanning is very significant for the organizations as it helps in-

1. **Determining Opportunities-** The interaction between the business and its environment identifies opportunities and helps in getting 'First Mover Advantage' out of it successfully. Opportunities mean the positive or favourable external forces that are likely to help a firm increase its business. The changes in the external environment indicate business opportunities and help the firm in designing strategies to capitalize on them. For instance, by learning that the demand for bikes is going to increase, a bike producing company can take steps to increase production and introduce new models of motorbikes to lure new customers. This is what Hero Honda did in the 1990s to establish its leading position in the Indian bike market. By doing so, the company got the firstmover advantage. Another example could be of MarutiUdyog, which was the first company to identify a demand for small, economic cars in India in the 1980s.
2. **Identification of Threats:** Threats refer to the negative or unfavourable external factors that create hurdles for a firm. Environmental scanning helps to identify possible threats in future and give warning signals to the firms. For instance, an Indian firm finds that an MNC is entering the Indian market with new substitutes. This should work as a warning signal for the Indian firm. Based on this information, the Indian firm can improve the quality of its products, reduce cost of production, engage in aggressive advertising, etc. The proposal of Tata Motors to bring out a small economy car by 2008 was a warning signal for Maruti Suzuki to cut its costs or introduce economy models.
3. **Sensitization of Management to Cope with Rapid Changes:** The knowledge of environmental changes sensitizes the management to make strategy to cope with the emerging problems. A keen watch on the trends in the environment would help to sensitize the firm's management to the changing technology, competition, government policies and changing needs of the customers, for example, Reliance Industries has always kept pace with the external environment and formulated strategies to avail opportunities in emerging high-tech areas.
4. **Formulation of Strategies and Policies:** Environmental analysis helps in identifying threats and opportunities in the market. They can serve as the basis of formulation of strategies to counter threats and capitalise on opportunities in the market. Leading companies like Reliance, Airtel, Tata Motors, Bajaj Auto and ITC have engaged the services of experts to monitor trends in the external environment. The inputs provided by the experts are used in making strategies.

5. **Image Building:** If a firm is sensitive to the external environment, it will come out with new products and services to meet the requirements of the customers. This would build the image or reputation of the firm in the eyes of the customers and the general public. Because of sensitivity to Indian consumer's requirements, LG was able to enhance its brand image in the Indian market in a short span of time. Similarly G.E. divested its computer and air-conditioning business because they could not attain 1st or 2nd position in the business as per their policy.
6. **Continuous Learning:** Strategy formulation is a continuous process that involves keeping in touch with the external environment. Thus, managers continue to understand environmental changes and act on the basis of such information. Search of alternatives and choice of strategy to deal with the environment are parts of the learning process.
7. **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
8. **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments. It activates management to move accordingly.
9. **Basis of strategy:** Strategists can gather qualitative information regarding business environment and utilize it in formulating effective plans. For example: ITC Hotels foresaw bright opportunities in the travel and tourism industry and started building hotels in India and abroad. Similar is the case with OYO room services or Snapdeal and Amazon web portals.
10. **Intellectual stimulation:** Knowledge of environment changes provides intellectual stimulation to planners and decision-making authorities. They can do it by paying more attention to people by listening to their problems and suggestion. They can also eliminate procedure complexities in a visible way. The drastic and dynamic steps will definitely keep the company better placed.

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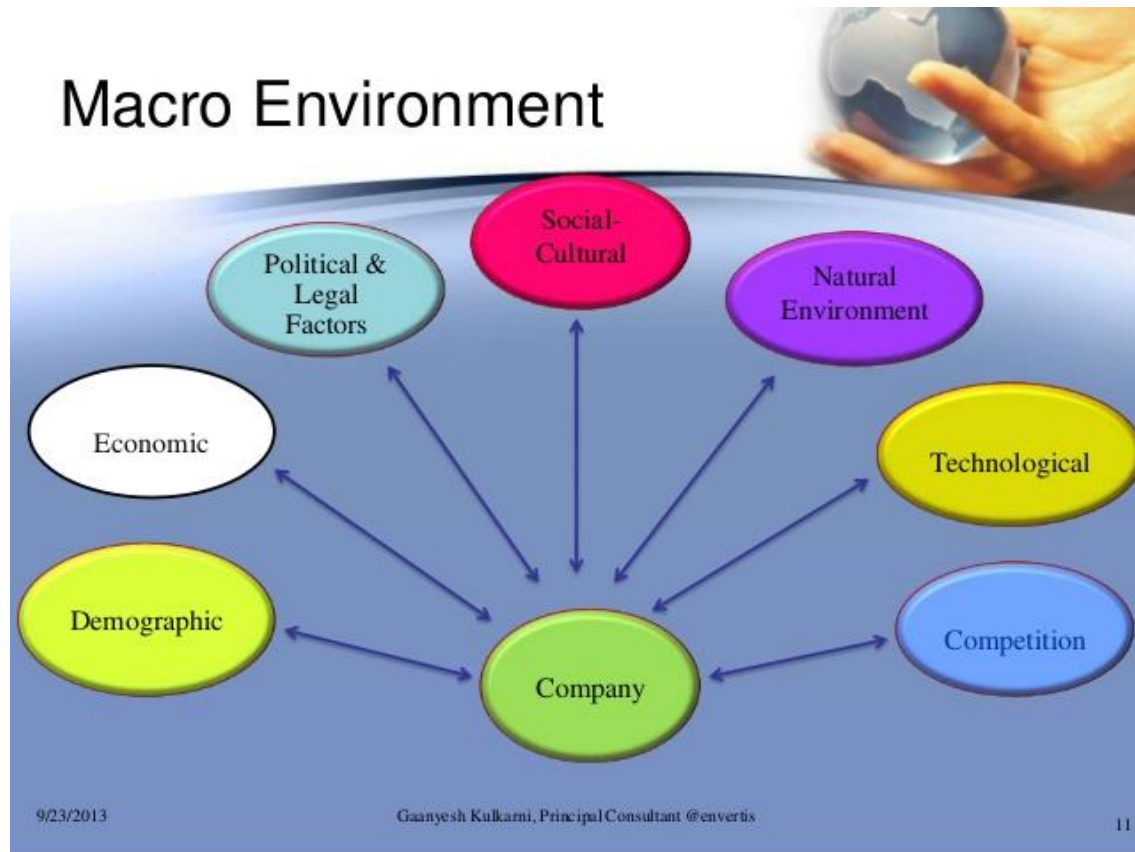
## **Knowledge Assessment - I**

*State whether the following statements are true or false:*

1. The exchange process between the firm and its customers depends upon business decisions taken by the firm, and these decisions again, are affected by the marketing environment.
2. If a company does not adapt to its environment, it would succeed in the long-run.
3. Marketing environment, generally guarded by the management of a company, is called uncontrollable environment
4. Knowledge of environment changes provides intellectual stimulation to planners and decision-making authorities.
5. Environmental analysis helps in identifying only business opportunities in the market.
6. A keen watch on the trends in the environment would help to sensitize the firm's management to the changing technology, competition, government policies and changing needs of the customers.
7. Search of alternatives and choice of strategy to deal with the environment are parts of image building process.
8. Strategists can gather qualitative information regarding business environment and utilize it in formulating effective plants.
9. If a firm is sensitive to the external environment, it will come out with new products and services to meet the requirements of the customers.
10. Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Answers: 1. True, 2. False, 3. False, 4. True, 5. False, 6. True, 7. False, 8. True 9. True 10. True

## SESSION 2: MACRO ENVIRONMENT FACTORS



Marketing system of a business organization is surrounded by many kinds of environments with which it interacts. The Firm's marketing activity depends upon its business planning by looking outside at what its customers require, rather than deciding inwardly at what it would prefer to produce. The firm has to be aware of what is going on in its marketing environment and appreciate how environmental change can lead to change in demand pattern for its products. Just as the human body may have problems, if it fails to adjust to environmental change; a business may also fail if it does not adapt to external changes such as new sources of competition or changes in consumers' preferences.

Macroenvironment and micro environment are very crucial for the firm in spite of being much apart from firm's internal settings. The macro-environment refers to external forces that are part of the larger society and so are beyond the control of firm's management. These forces do not concern the immediate environment of the firm but make an effect on firm's

ability to market its product effectively. By studying these factors firms can only prepare themselves for the changes taking place in environment.

The macro environmental factors/ forces which affect organization's marketing decisions and activities are as follows:

- i. Demographic forces
- ii. Politico-legal forces
- iii. Economic forces
- iv. Natural or physical forces
- v. Technological forces
- vi. Socio-cultural forces

**(i) Demographic forces:**

A firm must gather demographic environmental information first of all, even before setting up the business. Demography refers to studying human population in terms of size, density, location, age, gender, race, literacy and occupation. The demographic environment is of great interest to the marketers because these factors constitute potential market for company's products. If the total population consists more of children, there will be more demand for toys, baby foods, children accessories and diapers. With more of elderly people in a locality/city, there will be more demand for medicines, wellness products, and walking sticks etc. On the contrary if there is more of young population, the producers will produce variety of cosmetics, personality improvement products, designer fashionable clothes and lifestyle goods to meet their demand. The changing habits, tastes and life styles of the population also give directions to the marketers, e.g., in metropolitan cities there is more demand for fast foods, electronic home appliances and crèches etc. So demography is a very important factor to study for marketers as it helps to divide the population into market segments and target markets.

**(ii) Political and Legal forces:**

Federal, State and Local bodies generally set rules or restrictions on the conduct of businesses. The political environment includes all laws, government agencies and constitutional provisions affecting or limiting business organizations within a society. It is essential for marketers to be aware of such provisions,

incentives, Government's intervention and restrictions in business as these factors make great influence on business decisions. The viability of a business depends upon firm's ability to meet the challenges arising out of the politico-legal environment.

Following are the important components of the politico-legal environment:

- i. The constitutional framework-directive principles, fundamental rights of citizens, and division of legislative powers between central and state governments.
- ii. Political institutions like government and allied agencies
- iii. The extent and nature of government intervention in business
- iv. Commercial and economic laws and government policies under the laws relating to licensing, monopolies, foreign investment, etc.
- v. Government policies related to imports and exports
- vi. Government policies related to small scale industries, sick industries, consumer protection, control of environmental pollution, etc.
- vii. Government policies related to pricing and distribution of essential commodities.
- viii. Court decisions for the protection of consumers, environment and ecological balance.

If Government policy of liberalisation with an objective of inflow of foreign capital and technology into the country has encouraged multinational companies to enter into Indian market on the one hand, it has created new challenges for the Indian business on the other. Some products are regulated by both state and federal laws. For example ban on sale of 'Maggi' by the Government was a big blow to Nestle company. There are even restrictions for some products as to who the target market may be, so subliminal messages have to be indicated. For example, 'Cigarettes should not be marketed to younger children' or '*Smoking is injurious to health*' is denoted on packets by the cigarette companies. As laws and regulations change often, this is a very important aspect for a marketer to monitor.

Marketing decisions cannot be taken without taking into account the developments in political and legal field. Government agencies, political parties, pressure groups and laws create tremendous pressures and constraints for marketing management. Laws affect product design, pricing, and promotion. Irrespective of the political ideologies, intervention in the marketing process has almost become common in every nation.

The marketing managers are required to have adequate knowledge and understanding of political and legal forces for accomplishing their tasks.

**(iii) Economic Forces**

Another aspect of the macro-environment is the economic environment. The marketing managers every day face a bout of economic factors, assess its impact and change their action plan accordingly. Sometimes economic news spreads optimism; like Improvement in growth rate, higher demand, low interest rates and declining unemployment. On other times it may cause nervousness indicating industrial recession, price rise, increase in taxation, declining employment and demand etc. Naturally, business thrives when the economy is growing, prices are stable, and people have employment as well as high purchasing power creating demand. Marketing products is easier, when consumers are willing to buy, but is very difficult when people have less money to spend. Inflation is a sustained rise in the prices of goods and services. As a result, the purchasing power of rupee or real value of money gets reduced. For the same quantity and quality of goods, people are forced to pay higher prices. Inflation of mild dose is good for the economy but wild rise is bad for the society particularly middle and poor classes. The consumers would spend less and less on luxuries and would concentrate on basic necessities of life. Thus inflation poses a great problem in managing marketing programmes. To check price rise interest rates are pushed upwards which affects expansion plan of the organizations. The tax rate, exchange rate, foreign trade policy or industrial policy etc., all have tremendous impact on business decision making.

**(iv) Natural or physical forces**

The natural environment is another important factor of the macro-environment. This includes the natural resources that a company uses as inputs that affect their marketing activities. The concern in this area is the shortages of raw materials, increased air pollution, noise pollution, land pollution, water pollution, and so on. As raw materials become increasingly scarcer, the ability to create a company's product gets much harder. Also, pollution causes huge social cost, i.e. deterioration of the environment around us. The ecologists and sociologists assess social cost which



negatively affects a company's reputation if they are known for damaging the physical environment. A marketer also has to calculate social net profitability (social benefit minus social cost) of its business activity. He has to consider the physical environmental factors such as the quantity and quality of existing forest wealth, possibility of artificial rain, the exploitation of sea products like fish, the health hazards due to pollution, etc. The Indian government has introduced the concept of 'corporate social responsibility of business' as well as "Eco mark" for marketing eco-friendly products.

To maintain 'ecological balance' the marketing managers are expected to:

- i. Control the environmental consequences of the product adopting green production processes and bio-degradable packaging.
- ii. Follow the environmental criteria while deciding on product ingredients, design and packaging;
- iii. Respond to the issues raised by the environmentalists and consumerists

(v) **Technological forces:**

The technological environment is one of the fastest changing factors in the macro-environment. Technological environment refers to the state of technology in the areas of manufacturing, mining, construction, materials handling, transportation and information technology. Advancements in technology leads to greater productivity, higher quality and lower cost of production for the business. However, introduction of advanced technology requires higher capital investment. It may also lead to unemployment in some cases where machines replace jobs. That is why, labour unions generally oppose the introduction of new technology. Now a day technological changes are taking place at a fast pace and are affecting investment decisions undertaken by business firms. Introduction of automatic and semi-automatic machinery in industry requires higher capital investment on the one hand but leads to savings in labour costs as there will be fall in the number of workers required. So will be the impact of new information technology which has sped up communication between business houses and customers. There is now an increasing trend towards e-commerce because of easier availability of information technology throughout the world. The marketers must constantly watch changes in technology for keeping track

of competition and customer wants. In any country, the state of technology plays an important role in determining the type and quality of goods and services to be produced and the type of plants and equipment to be used. Early adoption of new technology helps in new improved products and increases the competitive advantage of the business firm.

**(vi) Socio-cultural forces:**

The final aspect of the macro-environment is the socio-cultural forces which consists of institutions and basic values and beliefs of a group of people. The socio-cultural environment of a country determines the value system of the society which in turn affects the marketing of products. Sociological factors such as caste structure, mobility of labour, customs, cultural heritage, view towards scientific methods etc. might have a far-reaching impact on business. For instance, the nature of goods and services in demand depends upon people's attitudes, customs, socio-cultural values, etc. In India, the attitudes of people have changed with respect to food and clothing. As a result of industrialisation, employment of women in factories and offices has increased and it has also increased the level of education. This has resulted in the growth of food processing and garment manufacturing units.

Socio-cultural environment determines the code of conduct the business should follow. If a business follows unethical practices, various social groups and Government will intervene to discipline it. For instance, if an industrial unit is not paying fair wages to workers, trade unions and Government will intervene. If it is indulging in adulteration, hoarding or black marketing, there are consumer forums and several government agencies to take action against it.

Some of the socio-cultural factors which have the potential of influencing marketing decisions include the following:

- Caste and occupational structure
- Family structure- joint v/s nuclear family
- Increasing number of women in the workforce
- Population shifts from rural to urban areas
- Educational system and literacy rates
- Changing consumption habits of the population for enhancement of quality of life

- Exposure to western modern culture



This macro environment is also known as PEST, that is, Political Environment, Economic Environment, Social Environment, Technological Environment, Environmental forces (Natural) and Legal Environmental study by an organization.

### ***Knowledge Assessment – II***

#### ***B. Make the right choice:***

1. The nature of goods and services demanded in a society depends upon
  - A. Fashion trends.
  - B. people's attitudes, customs, socio-cultural values
  - C. Future expectations
2. A business survives and grows if it
  - A. does not adapt to external environmental changes.
  - B. remains indifferent
  - C. adapts to external environmental changes
3. High rate of inflation and exchange rate----- business sentiment in a country.
  - A. encourage
  - B. promote
  - C. discourage
4. The macro environment for business activity can be termed as
  - A. PEST
  - B. POSTER.

C. PESTER

5. In metropolitan cities due to fast lifestyle there is more demand for
  - A. medicines and spectacles
  - B. fast foods, electronic home appliances and crèches
  - C. baby foods and toys
6. Exposure to western modern culture and population shifts from rural to urban areas are
  - A. Economic factors
  - B. Socio-cultural factors
  - C. Political factors
7. If a business follows unethical practices, various -----will intervene to discipline it.
  - A. social groups
  - B. Government
  - C. Both
8. Advancement in technology lead to greater productivity, higher quality and -----cost of production for the business.
  - A. lower
  - B. higher
  - C. Both
9. There is an increasing trend towards -----because of easier availability of information technology throughout the world.
  - A. e-commerce
  - B. mass production
  - C. Both
10. Sociologists assess -----which negatively affects a company's reputation if they are known for damaging the physical environment.
  - A. financial cost
  - B. social cost
  - C. Both

Answers: 1.B, 2.C, 3.C, 4.A, 5. B, 6. B, 7. C 8. B, 9.A, 10. B

## SESSION 3: MICRO ENVIRONMENT FACTORS

Micro environment indicates the factors and forces in the immediate area of operation of the firm which affect the marketing manager's ability to serve the customers. It includes both internal as well as external forces. Internal forces include the company's top management and its various departments like purchasing department, research and development department, production department, finance department and personnel department. All departments within an organization have the potential to positively or negatively impact firm's objectives. These factors are generally under control of the firm as these have to co-ordinate with each other, but external factors cannot be governed by the firm. External micro-environment includes the—

1. Suppliers
2. Marketing intermediaries
3. Competitors
4. Customers
5. General public.

### **1. Suppliers:**

The suppliers comprise all the business firms or individuals who provide raw materials, components and semi-finished goods to be used in production or even sell finished products of the organization. A firm depends on numerous suppliers either in capacity of a buyer of inputs or a producer to whole-sellers and retailers. The buyer-supplier relationship is one of mutual economic interdependence, as both parties rely on one another for their commercial well-being. Although both parties are seeking stability and security from their relationship, factors in the supplier environment are subject to change. For instance, shortage of raw material or sudden increase in raw material prices forces suppliers to raise the prices, or an industrial dispute may affect delivery of materials to the buying company. Any unexpected development in the supplier environment can have an immediate and potentially serious effect on the firm's commercial operations and production. It is crucial for a firm to monitor potential changes in the supplier environment and have contingency plans ready to deal with adverse developments hampering production activity.

## 2. Marketing Intermediaries:

Marketing intermediaries are the independent individuals or organisations that directly help in the free flow of goods and services between marketing organisations and the customers. Generally these are of two types, namely 'merchant' and 'agent'. Merchant middlemen can be wholesalers and retailers. Agent middlemen are an important part of the distribution network and render important services in different capacities. Organizations typically rely on banks, venture capitalists and other sources to finance their operations; warehouses and transportation companies to distribute goods; and advertising, market research firms and public-relations firms to market their products. Each intermediary can potentially increase or decrease production and customer satisfaction

## 3. Customers:

A customer may be an individual or household, an organization that purchases a product for use in the production of other products, or an organization that purchases a product for resale at a profit. This customer factor of a marketing microenvironment has great influence on marketing decisions. Marketing specialists, or marketers, develop and market messages to appeal to a company's individual customers' needs. Target may be grouped as follows:

- i. **Consumer market**- individuals and households buying the product for consumption.
- ii. **Industrial market**-organizations buying for producing other goods and services for the purpose of either earning profits or fulfilling other objectives or both.
- iii. **Reseller market**-organizations buying goods and services with a view to sell them to others for a profit. These may be selling intermediaries and retailers.
- iv. **Government and other non-profit market**- the institutions buying goods and services in order to produce public services. They transfer these goods and services to those who need them for consumption in most of the cases.
- v. **International market**- individuals and organizations of other countries buying for their consumption or industrial use or both. They may be foreign consumers, producers, resellers and governments.

#### 4. Competitors:

Competitors are the rival business firms in the effort to satisfy the markets and consumers' demand. Since these are competing with each-other, the marketing decisions of one firm not only influence consumer responses in the marketplace but also affect the marketing strategies of other competitors. So marketers have to continuously monitor the rival firm's marketing activities, their products, distribution channels, prices and promotional efforts to design its marketing strategy. They must also gain strategic advantage by positioning their products and services strongly against those of their competitors, in the minds of the consumers.

There are three types of competition:

- a) **Competition from similar products**-The most direct form of competition occurs amongst marketers of similar products. For example, competitors in electronic home appliances are LG,Samsung or Philips etc.
- b) **Competition from substitute products**-The second type of competition involves products that can be substituted for one-another. For example, in air transport industry, Indigo competes with Jet airlines. The increase in fares of one airline increases demand for other airline services.
- c) **Competition amongst all firms**-The final type of competition occurs among all organizations that compete for the consumer's purchases. In other words, modern marketers accept the argument that all firms compete for a limited amount of market share.

#### 5. Publics:

The company's micro environment also includes various publics, i.e. groups of people. A '*public*' means any group that has an actual or potential interest in or impact on the company's ability to achieve its objectives. A public can contribute to a marketing program through positive word of mouth or may hinder marketing activities through negative word-of-mouth. Kotler and Armstrong have described seven types of publics as follows-

1. **Financial publics**- They groups influence the company's ability to obtain funds. The examples of major financial publics are- banks, investment houses and shareholders.

2. **Media publics-** They consist of those mechanisms or devices that carry news, features and editorial opinion. They include- newspapers, magazines, radio and television stations.
3. **Government publics-** Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth-in-advertising and other matters.
4. **Citizen-action publics-** A company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups and others. Its public relations department can help it stay in touch with consumer and citizen groups.
5. **Local publics-** Every company has local publics, such as neighbourhood residents and community organizations.
6. **General publics-** A company needs to be concerned about the general public's attitude towards its products and activities. The public's image of the company affects its buying.
7. **Internal publics-** A company's internal publics include its workers, managers, and board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over to external publics.

***Knowledge Assessment – III***

***Fill in the blanks-***

1. Micro environment indicates the factors and forces in the immediate -----of the firm which affect the marketing manager's ability to serve the customers.
2. Organizations buying goods and services with a view to sell them to others for a profit are called-----.
3. Marketers have to continuously monitor the rival firm's marketing activities, their products, distribution channels, ----- efforts to design its marketing strategy
4. Agent middlemen are an important part of the ----- and render important services in different capacities.
5. A Firm depends on numerous suppliers either in capacity of a----- or a producer to whole-sellers and retailers.



6. Every company has local publics, such as ----- residents and community organizations.
7. Large companies use ----- and other means to inform and motivate their internal publics
8. The buyer-supplier relationship is one of mutual ----- interdependence.
9. External environmental factors ----- governed by the firm.
10. ----- provide raw materials, components and semi-finished goods to be used in production or even sell finished products of the organization.

Answers: 1.area of operation, 2.selling intermediaries, 3. prices and promotional  
4.distribution network, 5.buyer of inputs, 6. Neighbourhood, 7.Newsletters,  
8. Economic, 9. cannot be, 10. Suppliers

### **EXERCISE QUESTIONS:**

#### **(A) Write short answers to the following questions-**

1. Why do firms need to understand the marketing environment?
2. Define marketing environment.
3. Enlist certain external forces making an influence on a business.
4. How does an industrial conflict caused by labour unrest affect a firm's productivity
5. Enumerate few uncontrollable factors in the marketing environment.
6. Distinguish between micro environment and macro environment for a business
7. What do you understand by 'Environmental scanning'? Why is it necessary for a business?
8. Explain briefly various macro environmental factors to a business.
9. Micro environmental factors are very crucial for a business to operate smoothly. Comment on the statement.
10. How does demographic environmental information help firms?
11. Discuss the elements of external micro-environment before a business.
12. How do 'suppliers' influence firm's decision making? Discuss

**(B) Write long answers to the following questions-**

1. 'A firm plans production keeping in view the customers' needs, market characteristics, competing rivals, behaviour of suppliers and distributors for its product.' Do you agree the statement? Discuss.
2. With the help of an example explain how changes in government's economic policies make a negative effect on business activity of a firm.
3. What do you mean by publics? Describe seven types of publics affecting a business decision making.
4. A company's marketing environment consists of the actors and forces outside marketing that affect its management's ability to build and maintain successful relationships with target customers." Explain the definition.
5. 'The firm has to deal with the changes taking place 'within' it and 'around' it.' Discuss in detail.
6. How do you think that the four P's of marketing namely product, price, place and promotion are controllable factors for a business?
7. Which are the various aspects explored by the management of a firm through market research before starting its operations?
8. What is the importance of environmental scanning for the organizations in modern times? Explain in detail.
9. 'The socio-cultural environment of a country determines the value system of the society which in turn affects the marketing of products'; explore the truth in the statement with the help of an example.
10. 'Technology adoption helps to gain competitive advantage to the business firm'. Explain how?
11. What is the significance of 'Customer' in marketing micro environment? Explain various categories of customer markets.
12. What role is played by 'intermediaries' in a market? Explain with support of examples.