



MARKETING ENVIRONMENT

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MARKETING ENVIRONMENT

A company's marketing environment consists of all those factors that affect how firms manage their customer relationships.

Nature of marketing environment

Business Environment constantly keeps changing and hence a company has to monitor these changes and take due steps. A company's business environment is basically divided into two main parts: Micro environment and Macro environment.

Micro environment consists of factors close to the company that directly influence how a firm serves its customers. It includes – the company, suppliers, customers, market intermediaries, competitors and the general public. These factors can be controlled by the company's own actions.

Macro-environmental factors include larger forces that are beyond the control of the

company, atleast in the short run and hence are called uncontrollable factors. They include macro level forces like the political, economic, socio-cultural, technological, demographic and natural forces. The first four are often grouped together and called PEST factors.

Environmental analysis and scanning- its importance

Environmental analysis is a strategic process of monitoring various micro and macro forces that directly or indirectly affect the company and its working.

Why is environmental scanning and analysis important?

Business environment keeps constantly changing because of the changes in its micro and macro factors. Due to this, a company has to monitor these forces and analyze their impact of the performance of the company from time to time. This action also helps a company to review how the external forces are shaping up and get an idea of the forthcoming opportunities or

threats to the business. These inputs help in making important business decisions. It also helps to know what moves are taken by the competitors and the other firms in the industry. Businesses excelling in the scanning process can take proactive steps in the long term benefit of their companies. Environmental scanning is the foundation of any long term strategic planning and execution.

MACRO environmental scanning

While there are many different strategic tools for environmental scanning, one of the best tools popularly used is the Macro environmental scanning using PEST or PESTLE analysis. PESTEL or PESTLE is basically an acronym for six different environments that directly or indirectly affect a firm's marketing environment.

1. Political factors

2. Economic factors

3. Socio-cultural factors

4. Technological factors

5.Environmental factors

6.Legal factors

1.Political Environment

A company's business environment is directly affected by the political framework in which it is operating. The role and the policies implemented by the ruling parties have an important bearing on the businesses. Some factors affecting business performance are: political stability, government policies related to business growth, investment and taxation, world politics affecting trade, etc. Different governing parties in India have shown different levels of inclination towards building the business environment in India. 'Make in India' the current campaign promoted by the ruling party is a strong factor affecting the development of industries in India.

2.Economic factors

India being a mixed economy has a different business environment compared to other capitalist or socialist economies. Economic environmental factors affecting the business are mainly: economic policies- fiscal and monetary, controls and regulations, economic problems related to inflation, recession and unemployment, national income and expenditure, competitive forces, performance of the primary, secondary and tertiary sectors of the economy, availability of factors of production, exchange rate, globalisation, etc. India has witnessed a 360 degree change in its economic environment since 1991's Liberalisation, Privatisation and Globalization policy.

3.Socio-cultural factors

While Demographic environment is given a separate inclusion in many marketing books, it can be included in the socio-cultural environment.

Social environment mainly includes the demographic environment which includes how the population is distributed across various age groups, gender categories, caste, educational background, income groups and social class, nationality, religions, rural and urban population density, etc. India has a promising business future with a large mass of young population knowing various different languages. This also makes it a suitable destination for outsourcing jobs globally. Other social issues like employment opportunities, health and fitness, women empowerment etc are also shaping business dynamics.

Cultural environment includes the core values, attitudes, behaviour, lifestyle, etc. India has various cultural groups which further have a variety of sub-cultures based on caste and creed. Recent changes in the cultural values and lifestyle of Indians have given place to a lot of new international music albums, imported cars and watches, foreign holidays and ready to eat products in their lives. A lot of MNCs have to

consider these cultural differences while operating in India. A brilliant example of this is that McDonalds' – the US fast food giant does not offer beef or pork in its Indian Menu.

4. Technological factors

One of the major factors that has changed the face of business is the technology. It includes the degree of internet usage, digitalization, computerization of operations, automation, and use of different media for advertising and promotion purpose. The modern day online formats for retailing have replaced many physical retail stores in India and abroad. Social media is the latest mantra for success in modern marketing. Technology is used effectively for various functions of businesses right from new product development to distribution to advertising to eliciting real time customer feedback.

5.Environmental factors

Environmental and societal issues are recently being given a lot of importance like pollution, ecological balance, global warming, greener technologies, general health and fitness, waste disposal mechanism, etc. Increased use of CNG auto rickshaws, carbon emission issues, pollution tracking devices are examples of this in India.

6.Legal factors

Legal factors include the legislative framework and laws affecting working of the various entities. It affects all business operations right from its foundation to its growth. In India, there are many laws like Competition Act, 2002, Factories Act, 1948, Minimum Wages Act, 1948, Consumer Protection Act, 1986, etc.

Industry competition

An industry is a group of firms in the same business. According to Michael Porter, the level of industry competition is affected by various factors related to competitors, substitutes, new entrants, entry barriers and bargaining power of suppliers and buyers. The Five Forces Model of Competition helps to understand the relative competitive pressures in the industry and the firm's market position based on it.

Michael Porter's model of Factors determining competitive forces

1. Threat of new entrants
2. Rivalry among existing firm
3. Threat of substitute products
4. Bargaining power of buyers
5. Bargaining power of suppliers

Now let us discuss all these factors in detail.

1.Threat of new entrants

Competition directly depends on the number of new firms entering the industry. Entry of

the firms may depend on the existing entry barriers like regulation, investment and technical knowhow required. Low entry barriers bring in many new companies who may compete directly or indirectly. New competitors may sell similar products or with modifications.

2.Rivalry among existing firm

Rivalry in the industry depends on the number of firms and their size. Rivalry also depends on the prices, exit barriers, switching costs for buyers, rate of industry growth, fixed costs, etc.

3.Threat of substitute products

Substitutes are those products which satisfy the same need. For example, tea and coffee are substitutes for refreshment. If the switching cost to a substitute for a buyer is low, then there will be intense competition in the market. Other factors affecting competition are prices and quality of

substitutes. Of course, the relative perception about the performance of substitutes in the minds of the buyers plays an important role in this situation.

4. Bargaining power of buyers

Bargaining power of the buyers shows how the customers can influence a company or a manufacturer. Buyers normally would have more influential power if they are few in number while the suppliers are many. If the buyers buy a significant portion of the seller's produce, or can themselves start producing the raw materials through backward integration, their bargaining power is more.

5. Bargaining power of suppliers

Suppliers play an important part in the deciding the quality and prices of the final product produced by the firm. Suppliers may tend to have a strong bargaining power when substitutes are not readily available in the market or when they give differentiated

products required by the firms. Generally, high switching costs to other substitutes further makes their position stronger in the deal. Another threat from the suppliers emerges when it is possible for them to get into forward integration thereby producing what the buying firm produces.

Indian Marketing Environment

Sea change in the Indian marketing environment post liberalization

India followed socialistic economic policies post-independence. Indian environment has undergone sea changes ever since the implementation of the revolutionary LPG model in 1991. LPG stands for Liberalisation, Privatisation and Globalisation.

Liberalisation refers to relaxation of earlier government restrictions usually in areas of social and economic policies. With the advent of

liberalisation, the tariffs, subsidies and other restrictions on the flow of goods and services between countries were removed. Economic reforms were based on the assumption that market forces could guide the economy in a more effective manner than government control.

Privatisation refers to the participation of private entities in businesses and services and transfer of ownership from the public sector (or government) to the private sector.

Privatisation of crucial sectors like education, telecommunications, transport, insurance and banking led to a massive level of competition with many service providers in the market. This led to the evolution of customers as the king of the market.

Globalisation has opened the doors of the Indian economy for various foreign countries to conduct their business operations in India. Globalisation has furthered the level of

competition in India with many Multi-national companies like Nestle, Unilever, PepsiCo, Coca Cola, Ford, Honda, Nissan, Dell, Microsoft, Amway, Lenovo, and many others providing high quality products and services. Today, global products produced in different countries are available in Indian retail outlets. Globalisation has made different countries of the world into one integrated market.

In short, the modern Indian marketing environment is triggered by multiple local and global firms with multiple offerings, newer and innovative media emerging for reaching the customers, technology driven market places and an entire concept of using integrated holistic marketing plans for long term brand building.

Summary

Marketing environment is dynamic and has influences of different macro-environment factors like political, economic, socio-cultural, technological, environmental and legal which need to be constantly scanned while designing marketing strategies. Like in India, there have been sea changes in the marketing environment ever since the introduction of the revolutionary LPG model - Liberalization, Privatization and globalization.