

## INTRODUCTION

### DEFINITIONS AND MEANINGS:

It refers to all external forces which have impact on the functioning of the business.

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".

William F. Gluck defines marketing environment "as the process by which strategists monitor the economic, governmental, market, supplier, technological, geographic, and social settings to determine opportunities and threats to their firms".

According to Skinner "Marketing environment consists of all the forces outside an organisation that directly or indirectly influence its marketing activities, includes competition, regulation, politics, society, economic conditions, and technology".

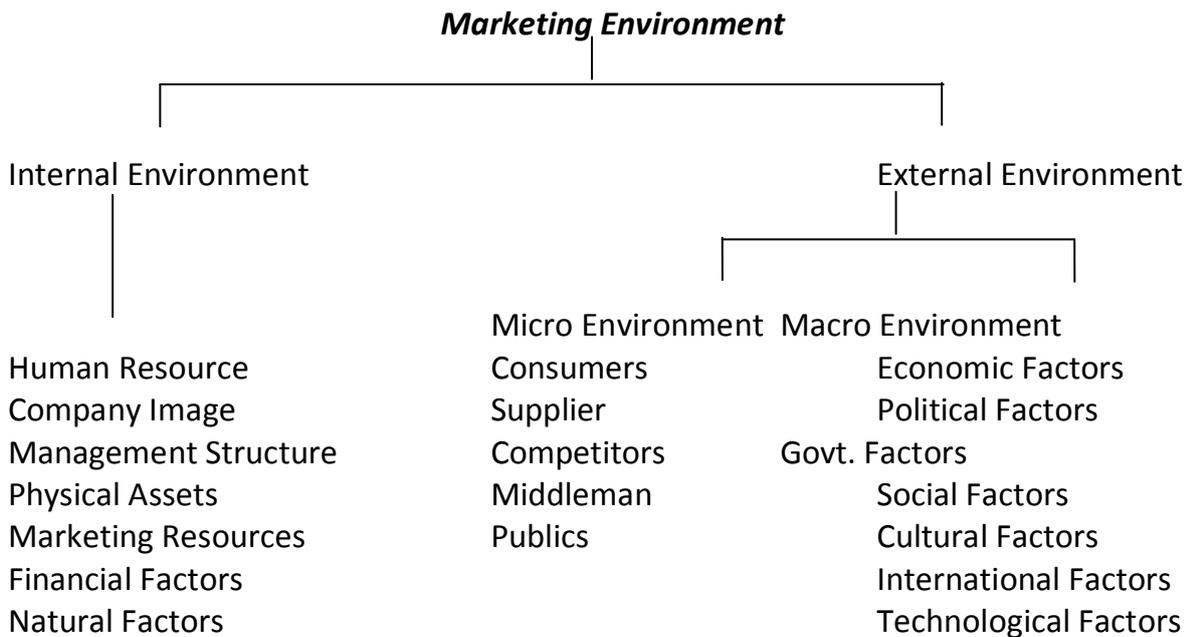
According to Phillip Kotler, "A company's marketing environment consists of the external factors and forces that affect the company's ability to develop and maintain successful transactions and relationship with its target consumers".

From the above definitions we can extract that marketing environment consists of factors that are internal and external which may pose threats to a firm or provide opportunities for exploitation.

In business all the activities are carried out to satisfy the needs of the consumers. In other words, it is an activity carried out by the people for the people which mean people occupy a central place around which all the activities revolve. It means business is people and a human is always a dynamic entity which believes in change and it may be right to say that the only certainty today is change. It poses a huge challenge for today and especially tomorrow's businessmen and managers to be aware of specific changes so as to keep themselves abreast of the latest happenings in the field of business to ensure their survival and sustainability in the market. Therefore, the study of marketing environment is of utmost importance for the managers and practitioners.

## CONSTITUENTS OF MARKETING ENVIRONMENT

Every business firm consists of a set of internal factors and it also confronts with a set of external factors. The following figure gives a more clear and comprehensive picture about the different factors.



### Internal Environment

There are number of factors which influence various strategies and decisions within the organisation's boundaries. These factors are known as internal factors and are given below:

**(a) Human Resources:** It involves planning, acquisition, and development of human resources (staff / work force) necessary for organisational success. It points out that people are valuable resources requiring careful attention and nurturing. Progressive and successful organisations treat all employees as valuable human resources. The organisation's strengths and weaknesses are also determined by the skill, quality, morale, commitment and attitudes of the employees. Organisations face difficulties while carrying out modernisation or restructuring process in form of resistance of the employees. So, the issues related to morale and attitudes should seriously be considered by the management. The support from different levels of employees helps the management in making decisions and implementing them.

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**(b) Company Image:** One company may issue shares and debentures to the public to raise money and its instruments are oversubscribed while the other company make seek the help of different intermediaries like underwriters to generate finance from the public. This difference underlines the distinction between the images of the two companies. The image / goodwill of the company also matters in certain other decisions as well like forming joint ventures, entering contracts with the other company or launching new products etc. Therefore, building company image should also be a major consideration for the managers.

**(c) Management Structure:** Gone are the days when business was carried out by the single entrepreneur or in the shape of partnerships. Now it has reshaped itself into the formation of company where it is run and controlled by the board of directors who influence almost every decision. Therefore, the composition of board of directors and nominees of different financial institutions could be very decisive in several critical decisions. The extent of professionalisation is also a crucial(important) factor while taking business decisions.

**(d) Physical Assets:** To enjoy economies of scale, smooth supply of produced materials, and efficient production capacity are some of the important factors of business which in turn depends upon the physical assets of an organisation. These factors should always be kept in mind by the managers because these play a vital role in determining the competitive status of a firm or an organisation.

**(e) R & D and Technological Capabilities:** Technology is the application of organised knowledge to help solve problems in our society. The organisations which are using appropriate technologies enjoy a competitive advantage over their competitors. The organisations which do not possess strong Research and Development departments always lag behind in innovations which seem to be a prerequisite for success in today's business. Therefore, R & D and technological capabilities of an organisation determine a firm's ability to innovate and compete.

**(f) Marketing Resources:** The organisations which possess a strong base of marketing resources like talented marketing men, strong brand image, smart sales persons, identifiable products, wider and smooth distribution network and high quality of product support and marketing support services make effortless inroads in the target market. The companies which are strong on above-mentioned counts can also enjoy the fruits of brand extension, form extension and new product introduction etc. in the market.

**(g) Financial Factors:** The performance of the organisation is also affected by the certain financial factors like capital structure, financial position etc. Certain strategies and decisions are determined on the basis of such factors. The ultimate survival of organisations in both the public and private sectors is dictated largely by how proficiently available funds are managed.

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So, these are some of factors related to the internal environment of an organisation. These factors are generally regarded as controllable factors because the organisation commands a fair amount of control over these factors and can modify or alter as per the requirement of the organisation.

### External Environment

Companies operate in the external environment as well that forces and shape opportunities as well as threats. These forces represent “uncontrollable”, which the company must monitor and respond to. SWOT (Strengths, weaknesses, opportunities and threats) analysis is very much essential for the business policy formulation which one could do only after examination of external environment. The external business environment consists of macro environment and micro environment.

### (A) Micro Environment

It is the company’s immediate environment where routine activities are affected by the certain actors. Suppliers, marketing intermediaries, competitors, customers and the public’s operate within this environment. It is not necessary that the micro factors affect all the firms. Some of the factors may affect a particular firm and do not disturb the other ones. So, it depends on what type of industry a firm belongs to. Now let’s discuss in brief some of the micro environmental factors.

**(a) Suppliers:** The supplier to a firm can alter its competitive position and marketing capabilities. These can be raw material suppliers, energy suppliers, suppliers of labour and capital. The relationship between suppliers and the firm characterize a power equation between them. This equation is based on the industry conditions and the extent to which each of them is dependent on the other. For the smooth functioning of business, reliable source of supply is a prerequisite. If any kind of uncertainties prevail regarding the supply of the raw materials, it often compels a firm to maintain a high inventory which ultimately leads to the higher cost of production. Therefore, dependence on a single supplier is a risky proposition. Because of the sensitivity of the issue, firm should develop relations with different suppliers otherwise it could lead to a chaotic situation. Simultaneously firms should reduce the stock so as to reduce the costs.

**(b) Customers:** According to Peter F. Drucker “the motive of the business is to create customers”, because a business survives only due to its customers. Successful companies recognise and respond to the unmet needs of the consumers profitably and in continuous manner. Because unmet needs always exist, companies could make a wealth if they meet those needs. For example it is the era when we could witness the increasing participation of women in the different jobs which has already given birth to the child care business, increased consumption of different household utilities like microwave ovens, washing machines and food processors etc. A firm should also target the different segments on the basis of their tastes and preferences

because depending upon a single customer is often risky. So, monitoring the customer sensitivity is a pre condition for the success of business.

**(c) Competitors:** A firm's products/services are also affected by the nature and intensity of competition in an industry. A firm should extend its competitive analysis to include substitutes also besides scanning direct competitors. The objective of such an analysis is to assess and predict each competitor's response to changes in the firm's strategy and industry conditions. This kind of analysis not only ensures the firm's competitive position in the market but also enables it to identify its major competitor in the industry. Besides the existing competitors, it is also necessary to have an eye on the potential (future) competitors who may enter the industry although forecasting of such competitors is a difficult task. Thus an analysis of competition is critical for not only evolving competitive strategy but also for strengthening a firm's capabilities.

**(d) Marketing Intermediaries:** Marketing intermediaries provide a vital (important) link between the organisation and the consumers. These people include middlemen such as agents, brokers, wholesaler, retailer etc. who help the firm to reach out to its customers. Physical distribution entities such as stockiest or warehouse providers or transporters ensure the smooth supply of the goods from their origin to the final destination (customer's place). There are certain marketing research agencies which assist the organisation in finding out the consumers so that they can target and promote their products to the right consumers. Financial middlemen are also there who finance the marketing activities such as transportation and advertising etc. A firm should ensure that the link between organisation and intermediaries is appropriate and smooth because a wrong choice of the link may cost the organisation heavily. Therefore, a continuous vigil of all the intermediaries is a must.

**(e) Publics:** an organisation has an interface with many publics during its life time. According to Cherrunilam "A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interests". The public includes local publics, media and action groups etc. The organizations are affected by certain acts of these publics depending upon the circumstances. For example if a business unit is establishment in a particular locality then it has to provide employment to the localities at least to the unskilled labour otherwise local group may harm that very business or they may interrupt the functioning of the business. The media has also to be taken into confidence because in turned hostile (aggressiveness) they may tarnish the image of the organisation unnecessarily. Simultaneously media may disseminate vital information to the target audiences. Action groups can also create hindrances (barrier) in the name of exploitation of consumers or on the issue of environmental pollution. The business suffers due to their activities.

Therefore, their concerns should also be kept in mind. Albeit, it is wrong to think that all publics are threats to the business yet their concerns should be considered up to a certain level.

### **(B) Macro Environment**

With the rapidly changing scenario, the firm must monitor the major forces like demographic, economic, technological, political/legal and social/cultural forces. The business must pay attention to their casual interactions since these factors set the stage for certain opportunities as well as threats. These macro factors are, generally, more uncontrollable than the micro factors. A brief discussion on the important macro environmental factors is given below:

**(a) Demographic Environment:** The first macro environmental factor that businessmen monitor is population because business is people and they create markets. Business people are keenly interested in the size and growth rate of population across the different regions, age distribution, educational levels, household patterns, mixture of different racial groups and regional characteristics. For ensuring the success of the business incessant watching of these demographic factors is a prerequisite. To enter into a particular segment, a marketer needs to understand composition of that segment with respect to different demographic factors in that very segment so as to decide the optimal.

Marketing mix and also take certain strategic decisions related to it. For example, if the youth form a large proportion of the population, it is but natural for firms to develop their products according to the requirement of this group. Besides the age, it is also necessary to break up population according to sex-wise and also the role of women. Today we can observe that more and more women have taken to work and professions and hence it can be seen that many time saving appliances are available in the market. Each gender group has different range of product and service needs and media and retail preferences, which help marketers to fine-tune their market offers.

There is yet another dimension of population changes which a businessman needs to address. For example, occupation and literacy profile of the targeted segment. The higher literacy level will imply a more demanding consumer as he is in the touch of the various media which acquaint him with information, and on the other hand low literacy make the marketers look for other method of communication. The occupation of the population also affects the choice of the products and media habits. Any significant irrigation of the population from one area to another, rural to urban, is another important environmental factor which calls for the marketer's attention. For example, the movement from north-India to South-India will reduce the demand for warm clothing and home heating equipment on the one hand and will increase the demand for air conditioning on the other hand. So, the companies that carefully analyse their markets can find major opportunities.

**(b) Economic Environment:** Besides people, markets require purchasing power and that depends upon current income, savings, prices, debt and credit facilities etc. The economic environment affects the demand structure of any industry or product. The following factors should always be kept in mind by the business people to determine the success of the business.

- (i) Per capita income
- (ii) Gross national product (GNP)
- (iii) Fiscal and monetary policies
- (iv) Ratio of interest changed by different financial institutions
- (v) Industry life cycle and current phase
- (vi) Trends of inflation or deflation

Each of the above factors can pose (create) an opportunity as well as threat to a firm. For example, in an under-developed economy, the low demand for the product is due to the low income level of the people. In such a situation a firm or company cannot generate the purchasing power of the people so as to generate the demand of the products. But it can develop a low priced product to suit the low income market otherwise it will be slipped out from the market. Similarly, an industry gets a number of incentives and support from the government if it comes under the purview of priority sector whereas some industries face tough task if they are regarded as belonging to non-essential or low priority sectors.

In the industry life cycle, timing is everything when it comes to making good cycle-sensitive decisions. The managers need to make appropriate cutbacks prior to the onslaught of recession because at that time sales are bound to decline which leads to increasing inventories and idle resources and that is costly. On the other hand, business people cannot afford to get caught short during a period of rapid expansion. This is where accurate economic forecasts are a necessity and therefore, a manager must pay careful attention to the major economic changes.

**(c) Technological Environment:** Technology is a term that ignites passionate debates in many circles these days. According to some people, technology has been instrumental in environmental destruction and cultural fragmentation whereas some others view that it has affected economic and social progress. But no doubt, it has released wonders to the world such as penicillin, open-heart surgery, family planning devices and some other blessings like automobile, cellular phones and internet services etc. But the businesses that ignored technological developments, had to go from the world map (market / competition). For example, cars like Ambassador, Premier, Bajaj Scooter had to go from the scene because of obsolete technology. The life cycles of the products have reduced and expectations of the consumers are becoming higher and higher due to all these technological changes. To cope up with this kind of scenario, a continuous vigil of the happenings and adequate investment in R & D needs to be earmarked by the marketer. Marketers

must also be aware of certain government regulations while developing and launching new products with latest technological innovations.

**(d) Political/Legal Environment:** Business decisions are strongly affected by developments in the political and legal environment. This environment consists of laws, regulations and policies that influence and limit various organisations. Sometimes these laws create opportunities for the business but these may also pose certain threats. For example, if the government specifies that certain products need mandatory packaging then it will boost the cardboard and packaging companies but it will add to the cost of the product. Regulations in advertising, like a ban on advertisement of certain products like liquor, cigarettes and pan masalas and hoarding of food products, gas and kerosene are the reality of today's business. Business legislations ensure specific purposes to protect business itself as well as the society from unfair competitions; to protect consumers from unfair business practices and to protect the interest of the society from unbridled business behaviour. In India business is regulated through certain laws like Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act), Foreign Exchange and Regulation Act, 1973 (FERA), Partnership Act 1932, Consumer Protection Act, 1986 (CPA), and Companies Act, 1956 etc. A businessman needs to understand various policies and political ideologies because these have a profound impact on the functioning and success of the business.

**(e) Social-cultural Environment:** Society shapes the beliefs, values, norms, attitudes, education and ethics of the people in which they grow up and these factors exercise a great influence on the businesses which by far are beyond the company's control. All these factors are classified as social-cultural factors of the business. The buying and consumption pattern of the people are very much determined by these factors and cost of ignoring the customs, tastes and preferences etc. of the people could be very high for a business. Consumers depend on cultural prescriptions to guide their behaviour, and they assume that others will behave in ways that are consistent with their culture. Culture unites a group of people in a unique way and supports the group's unity. As consumers, people expect that businessman will deliver according to the values, customs and rituals of the existing culture. As the business is going global day by day and the world is at the verge of 'global village' the need for developing understanding of cultural differences has become essential to survive.

Therefore, the marketers who wish to be the part of the ongoing process need to understand the process of acculturation so that they can develop ways to handle the consumers of different cultures. People's attitudes towards business are also determined by the culture. 'What is right and what is wrong' are basic to all businesses and for doing or not doing a particular work is judged on the basis of prevalent culture and also determines ethical code of conduct.

Despite the pervasive nature of culture, not all people within a society think, feel, and act the same way. Every society has subcultures- group of people who share certain values but exhibit them in different ways. Within a society such as the India, there are the different tastes and preferences of the different sections. Like a Punjabi has altogether different preferences than that of a South Indian in the name of certain products like food and clothing, and the shrewd marketers have always capitalized on this kind of opportunities. Hence, a thorough understanding of social-cultural environment is imperative in order to be successful.

### ***SUMMARY***

Marketing environment refers to all factors that have a direct or indirect bearing on the functioning of the business. Every business firm encounters a set of internal and external factors. The internal environment consists of the factors which influence the various strategies and decisions which happen within an organization's boundaries. These factors include human resources, company image, management structure, physical assets, technological capabilities, marketing resources, and financial factors. The external environment comprises of micro and macro environmental factors. Micro environment is immediate environment of the firm which include suppliers, consumers, competitors, intermediaries and publics. These factors are generally regarded as controllable factors because the marketing department commands a fair amount of control over these factors and can modify or alter as per the requirements of the organization.

The businessmen must monitor the major macro environmental factors which include demographic, economic, political/legal, technological and social/cultural factors. In the demographic environment, marketers must be aware of growth of population, composition of age, educational levels and geographic shifts in population. In the economic arena, they need to focus on per capita income, distribution of income, saving pattern and credit availability etc. In the technological factors, accelerating pace of technological changes, opportunities for innovation and increased regulations of the government towards adopting technology are the main concerns to be monitored. In the political/legal factors, businessmen must work within the laws and regulations so as to protect their as well as society's interest. Finally, in the social/cultural environment, marketers must understand the prevalent culture and its nature and must address the needs of different subcultures within a society. A continuous and vibrant monitoring of the environment is indispensable for business growth.

## **KEYWORDS**

**Demography:** The study of population features i.e. relating to broad population statistics, such as age, sex, household composition etc.

**Competitive advantage:** A firm which offers better marketing mix to its target consumers than that of competitors.

**Culture:** The whole set of beliefs, attitudes and ways of behaving by a group of people.

**Macro-environment:** The general external business environment in which a firm operates and are uncontrollable.

**Micro-environment:** The general business environment factors which are controllable in nature.

**Technology:** The application of science for its practical purposes.

**Legal environment:** Laws and regulations and their interpretation.