

Unit 3

THE MARKETING ENVIRONMENT

Part 1

I. Read the text and answer the questions.

Companies and organisations operate in the macro and micro environments. The understanding of these 'environments' is important in the overall appreciation of how marketing operates within our contemporary and often dynamic world. A critical issue to bear in mind is that these environments are not static; they are in a constant state of fluidity.

The fluidity of these environments illustrates one of the dilemmas facing organisations (both nationally and globally) today. Organisations must both understand and be able to monitor environments in an attempt to be both proactive and reactive to changing conditions. If an organisation fails to successfully read and understand the dynamics, it may face either a reduced market share, or at the worst total extinction. Such marketplace dynamics are not new. For example, the British shipbuilding industry, proud builders of mighty passenger and battleships during the first half of the 20th century, was virtually extinct by the 1970s. It had failed to analyse the changing dynamics of shipbuilding management and the emergence and/or consolidation of highly skilled European and Far Eastern shipyards. While the United Kingdom maintains a pre-eminence in luxury powerboats, it is unlikely to ever see the resurgence of the heavy shipbuilding industry.

Business and marketing activities are influenced and controlled by a mixture of external and internal factors. These are often referred to as the macro and micro environments. The macro environmental factors feed into the micro environmental factors. However, it is important to note that the micro environment also feeds back into the macro environment. For instance, both employees and major companies have the power (especially through lobbying and the ballot box) of 'influencing' government activities to a greater or lesser extent. However, in other areas such as extreme weather conditions, micro environmental influences currently have very little or no power to control extreme weather conditions.

Macro Environment

PEST factors – politics, economics, society and technology. This is sometimes also presented as STEP.

PESTLE - political, economic, social (sociocultural), technological, legal and environmental factors:

- ◆ Defines the major external factors that affect organisations both nationally and internationally.
- ◆ Covers a much wider relevant perspective than a PEST analysis.

Political

This can be subdivided into geopolitical events and national politics.

Geopolitical events

Geopolitics frames much of what happens within the global community. Geopolitical events can be short-lived or prolonged. Both can and do have an effect on organisations and their ability to market their products and services.

For centuries there have been trading blocs within which countries form alliances for both trade and military reasons (EU, Mercosur, NAFTA, APEC, etc.). Currently the largest is the European Union, which has 25 Member States and may grow still larger. Such alliances provide for favourable trading status between member nations, but they can be detrimental to non-members who face crippling barriers to entry for their goods.

Geopolitical perceptions have a societal influence as well. International concern at the United States's decision to invade Iraq has led to countries and individuals boycotting US products and services. There is a degree of political risk within all nations, even those considered the most stable. Companies must therefore consider the political risks involved in operating within different country environments. These risks can be divided into the following subsets: expropriation, confiscation, revolution and civil wars, terrorism, strikes, domestication.

National politics

Diplomacy is no longer just the preserve of government diplomats. Organisations must be aware of the diplomatic sensitivities of nations, and international political issues. Failing to understand such sensitivities can be detrimental to the business in both the short and longer term.

Economic

The changes in the economic fortunes of countries and regions affect individuals and companies not only within that region but elsewhere too. We are increasingly living within a globalised economy where everyone is to a greater or lesser extent dependent on everyone else.

The economic environment consists of factors that affect consumer purchasing power and spending patterns. Marketers should be aware of major trends and consumer spending patterns. They need to understand the state

of economy from two perspectives: the overall economic health and level of development of a country and the current stage of its business cycle.

The most commonly used indicator to gauge the health of a country's economy is gross domestic product (GDP). In addition to total GDP, marketers may consider GDP per capita, which is the total GDP divided by the number of people living in the country. A similar but less frequently used measure of a country's economic health is GNP.

The level of a country's economic development has to be considered to understand the needs of people who live there. Nations vary greatly in their levels and distribution of income. Some countries have industrial economies, which constitute rich markets for many different kinds of goods. A developed country boasts sophisticated marketing systems, strong private enterprise and bountiful market potential for many goods and services. At the other extreme are subsistence economies; they consume most of their own agricultural and industrial output and offer few market opportunities. In between are developing economies that can offer outstanding marketing opportunities for the right kinds of products. A country's standard of living is an indicator of the average quality and quantity of goods and services that country consumes.

All economies go through economic or business cycles depression or slump, recovery, steady growth, boom, recession, stagnation. Governments and their central banks endeavour to maintain steady economic growth. However, they cannot be fully in control of a national economy within a globalised economic system, since external factors such as recession, war and natural disasters in other regions have an effect. If the population of a major economy is not purchasing goods from overseas, the supplier nation will inevitably be affected, though less so if it has other existing markets, or the opportunity to seek out new markets.

Both governments and central banks monitor inflation rates carefully. Their concern is that inflation will spiral out of control, indicated by increasing price rises and a reduced purchasing power for the national currency. This in turn will have an impact on domestic manufacturing and service industries. Countries that have experienced high levels of inflation typically go on to witness economic recession, with high levels of unemployment. To control inflation, governments and central banks use interest rate changes to reduce the level of consumer spending.

Marketers need to be aware of consumers' levels of disposable income. This is the amount of money available to consumers after they have paid taxes and key items such as mortgage and utility bills, to purchase other products and services. The level of disposable income is affected by the various factors such as the overall health of the economy, inflation, interest rates and taxation levels.

Sociocultural

This refers to the characteristics of the society, the people who live in that society, and the culture in that society. Demographics is the study of the characteristics of societies. These are statistics that measure aspects of a population, such as size, age, gender, ethnic group, income, education, occupation and family structure. There are some of the changing demographic factors facing contemporary society: role of family, impact of communication, impact of transportation, migration. It is important to look at them not as isolated factors but as an integrated whole.

Doole and Lowe (1999) define culture for the international marketer as:

“The sum total of learned beliefs, values and customs that serve to direct consumer behaviour in a particular country market”. It is also important to recognize that (whether we like it or not) cultures are not static. Like so many other things, cultures undergo continual change.

Technological

Today technology is seen as an investment that provides companies with competitive advantages. Successful marketers continuously scan the external business environment in search of ideas and trends to spark their own research efforts. When inventors come across something exciting, they want to protect their exclusive right to produce and sell invention by applying for a patent.

Legal (regulatory)

Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Almost every marketing activity is subject to a wide range of laws and regulations. Legislation affecting business around the world has increased steadily over the years. Legal and regulatory issues are driven by a combination of political and judicial factors. Even in democratic countries, governments sometimes seek extraordinary legal powers that affect both their citizens and the organisations that employ them. Business legislation has been enacted for a number of reasons: to protect companies, e.g. from unfair competition, to protect consumers from unfair business practices. The third purpose of government regulation is to protect the interests of society against unrestrained business behaviour. Regulation arises to ensure that companies take responsibility for the social costs of their production or products.

Environmental-ecological

There are four key areas – disease, weather, global warming/dimming, and geophysical activities and terrain. Obviously, the weather has an impact on our lives, affecting choices concerning consumption and vacation. Understanding weather effects bring improved efficiency and greater profits. Disease is a part of our lives, from the common cold to life threatening and

fatal illnesses. There are regions and nations devastated by epidemics, and the spread of disease across borders is not new.

Since the 1970s there has been much debate about the potential threat and impact of global warming. Over the last 60 years there was a significant release of such gases as carbon dioxide, methane and nitrous oxide through the burning of fossil fuels (to produce power to run vehicles, homes and businesses), increased agriculture, deforestation, industrial production and mining. Recent research reveals that there is an additional phenomenon – global dimming which is caused by the visible elements of the air pollution: soot, ash, sulphur compounds and other particles. Such air pollution reflects sunlight back into space, preventing it from reaching the earth's surface.

The earth's surface is a complex structure of tectonic plates, which move relative to each other. These movements create the physical world and they are unpredictable. Where they are active, there is geophysical activity in the form of earthquakes and volcanos. The devastation wrought by such events has an impact on lives, livelihoods and economic stability of countries.

1. Why should companies take into account macro and micro environments?
2. Using the Internet and other resources monitor changes that occur within both the macro and micro environments.
3. Consider how the macro and micro environment affect all aspects of business. Give real examples.
4. What is the interaction between the macro and micro environments?
5. Why are some other factors included in PESTLE analysis in comparison with STEP factors?
6. Do you think that companies can protect themselves from the extremes of macro environmental activity? If so, how?
7. How would you differentiate geopolitical events from national politics?
8. How does economic success of countries influence companies and individuals?
9. What are the two aspects that characterize the state of economy?
10. What distinguishes developed countries from the others?
11. What are the main types of economic or business cycle?
12. Describe the key indicators of economic environment.
13. What factors influence disposable income? Prove them.
14. What are the demographic factors facing society? Give the description of them.
15. Why is it essential to take into account cultural issues in societal factors?
16. Why is technology considered a profitable investment?

17. Why are legal aspects so important?
18. What positive aspects do you see in a company's relying on technology?
19. What are the key areas of environmental factors?
20. What are the consequences of a company's underestimating environmental factors?
21. Pick out any statements from the text and confirm them by relevant examples.

II. Exercises

1. Find English equivalents for the following Russian words and phrases from the text:

1. сокращенная доля рынка	
2. экономическое богатство страны	
3. покупательная способность населения	
4. структура потребительских расходов	
5. измерять	
6. ВВП на душу населения	
7. уровень жизни	
8. экономический спад и застой	
9. уровень инфляции	
10. внутреннее производство	
11. процентная ставка	
12. чистый совокупный доход	
13. ипотека и коммунальные платежи	
14. налогообложение	
15. конкурентное преимущество	
16. вопросы нормативно-правового регулирования	
17. недобросовестная конкуренция	

2. Translate the sentences into English using the glossary and vocabulary from the text:

1. Сегодня перед нашей компанией встает вопрос, как реагировать на быстро изменяющуюся окружающую обстановку.
2. Доля рынка резко сократилась в этом году, и в целом, динамика по рынку недвижимости отрицательная.

3. Внешние и внутренние факторы определяют и контролируют коммерческую деятельность любой компании.

4. Политические, экономические, социальные и технологические факторы рассматриваются при анализе ПЭСТ.

5. Геополитические события меняют состав торговых и военных союзов, отражаются на деятельности коммерческих организаций, изменяя рынок сбыта товаров и услуг.

6. Экономическая среда состоит из факторов, которые влияют на потребительскую покупательскую способность.

7. Здоровье экономики одной отдельно взятой страны измеряется валовым внутренним продуктом на душу населения.

8. Уровень жизни в стране можно определить по количественно-качественному показателю потребляемых страной товаров и услуг.

9. Застой экономики может смениться экономическим ростом, но это не значит, что экономического спада больше не будет.

10. Центральный банк страны теперь будет контролировать процентные ставки по всем банковским услугам. Маркетологи, вы должны использовать этот факт при разработке новой маркетинговой концепции.

11. Рост цен и снижение покупательской способности населения свидетельствует о росте инфляции. Задача нашей команды – разработать стратегию маркетингового выживания.

12. Маркетолог должен понимать, что такое чистый совокупный доход. Это – количество денег, которое осталось у потребителя после того, как он уплатил налоги, оплатил коммунальные счета и долги по ипотеке. И эти деньги потребитель должен хотеть потратить, в том числе и на услуги нашей компании!

13. Я прошу повышения заработной платы потому, что, несмотря на большое количество нулей в ней, ее полностью съедают налоги, инфляция и выросшие процентные ставки по ипотеке.

14. Одним из конкурентных преимуществ нашей компании являются технические инновации, в которые мы непрерывно инвестируем. Господин Иванов сейчас расскажет о нашей новой запатентованной модели.

15. Вчера вступил в силу новый закон, регулирующий социальную ответственность бизнеса. Очередные изменения в законодательстве призваны защитить потребителя, в том числе и от недобросовестной конкуренции.

Part 2

I. Read the text and answer the questions.

The Company's Microenvironment

The micro environment can be described as the environment that is closely linked to the organisation. Marketing management's job is to build relationships with customers by creating customer value and satisfaction. However, marketing managers cannot do this alone. The micro environmental forces engaged within and across the organisation are employees, suppliers, intermediaries, customers, competitors, publics.

Employees

Marketing success requires building relationships with other company departments, such as top management, finance, research and development (R&D), purchasing, operations, and accounting. All of them form the internal environment. Higher levels of management set the company's mission, objectives, strategies, and policies. Top management must approve marketing plans before they are implemented. Finance focuses on finding funds to carry out the marketing plan. R&D is concerned with the problems of designing. Purchasing worries about getting supplies and materials, whereas manufacturing is responsible for producing the desired number of products. Accounting has to measure revenues and costs to help marketing know how well it is achieving its objectives.

Suppliers

Suppliers are companies and individuals that provide the resources needed by the company to produce its goods and services, for example, raw materials. It also must obtain labour, equipment, fuel, electricity, computers, and other factors of production. Marketing managers must also watch supply availability. Supply shortages or delays, labour strikes, and other events can cost sales in the short run and damage customer goodwill in the long run.

Intermediaries

Marketing intermediaries are firms that help the company to promote, sell, and distribute its goods to final users. They include middlemen, physical distribution firms, marketing services agencies, and financial intermediaries. Middlemen are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers who buy and resell merchandise (they are often called resellers). Middlemen perform important functions more cheaply than the company can by itself. They stock goods where customers are located. They show and deliver goods when consumers want them. They advertise the goods and negotiate terms of sale.

Physical distribution firms help the company to stock and move goods from their points of origin to their destinations. Warehouses are firms that store and protect goods before they move to the next destination. Transportation firms include railroads, trucking companies, airlines, barge companies, and others that specialize in moving goods from one location to another. A company must determine the best ways to store and ship goods, balancing such factors as cost, delivery, speed, and safety.

Marketing service agencies are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets. When the company decides to use one of these agencies, it must choose carefully because these firms vary in creativity, quality, service, and price.

Financial intermediaries include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods. The company's marketing performance can be seriously affected by rising credit costs, limited credit, or both. For this reason, the company has to develop strong relationships with important financial institutions.

Customers

Without a customer, there is no business. Therefore, all companies have to know who their customers are, where they come from, what they require. The company's marketing plan should aim to attract and retain customers through goods and services that meet their "wants and needs". They also need to take into account the fact that their customers might be affected by the macro issues.

Competitors

Every company faces a wide range of competitors. The marketing concept states that to be successful, a company must satisfy the needs and wants of consumers better than its competitors do. Thus, marketers must do more than simply adapt to the needs of target consumers. They must also adapt to the strategies of competitors who are serving the same target consumers. Companies must gain strategic advantage by strongly positioning their offerings against competitors' offerings in the minds of consumers. No single competitive marketing strategy is best for all companies. Each firm should consider its own size and industry position compared to those of its competitors.

Publics

The company's marketing environment also includes various publics. A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its objectives. Every company is surrounded by the following types of publics: financial, media, government, local, and internal.

Financial publics influence the company's ability to obtain funds. Banks, investment houses, and stockholders are the major financial publics.

Media publics are those that carry news, features, and editorial opinion. They include newspapers, magazines, and radio and television stations, blogs and other Internet media.

Government publics: Management must take government developments into account. Marketers consult the company's lawyers on issues of product safety, truth-in-advertising, dealers' rights, and other matters.

Local publics: Every company has local publics, such as neighbourhood residents and community organisations. Large companies usually appoint a community-relations officer to deal with the community, attend meetings, answer questions, and contribute to worthwhile causes. A company's marketing decisions may be questioned by consumer organisations, environmental groups, minority groups, and others. The public's image of the company affects its buying.

Internal publics includes workers, managers, volunteers, and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about the companies they work for, this positive attitude spills over to the external publics.

1. Who is involved in the micro environmental forces?
2. Why is it essential for marketers to communicate with other company's departments?
3. Why are suppliers considered a key to an organisation?
4. Distinguish the functions of different types of intermediaries.
5. Prove that customers are fundamental to the existence of any organisation.
6. Why should organisations bear in mind competitors' activities?
7. Define the role of each type of publics.
8. Why do organisations have to be aware of the local community?
9. What are the consequences of employees' undervalue?

II. Exercises

1. Give the definitions to the following words or expressions:

Domestication
Terrorism
Alliance
Detrimental
Purchasing Power
Gdp
Gnp
Depression

Recovery
Stagnation
Patent
Legislation
Interest Rate
Intermediary
R&D

2. Make up word combinations:

a)

- | | |
|-----------------|------------------|
| 1. contemporary | a) sensitivities |
| 2. geopolitical | b) events |
| 3. total | c) extinction |
| 4. global | d) of income |
| 5. political | e) economy |
| 6. diplomatic | f) advantage |
| 7. globalized | g) risk |
| 8. spending | h) world |
| 9. distribution | i) patterns |
| 10. competitive | j) community |

b)

- | | |
|-----------------|-----------------|
| 1. private | a) agencies |
| 2. global | b) of directors |
| 3. disposable | c) warming |
| 4. customer | d) value |
| 5. company's | e) companies |
| 6. distribution | f) mission |
| 7. advertising | g) consumers |
| 8. insurance | h) enterprise |
| 9. target | i) income |
| 10. board | j) channel |

3. Estimate whether the following market environment characteristics are micro factors or macro factors:

1. Positive reports in the national press about a brand.
2. The Internet has opened up new distribution and marketing channels.
3. Good relations between a company and a supplier mean that goods are always delivered on time.
4. Legislation in European countries is restricting the right to smoke in public places.
5. High unemployment in a region reduces spending on leisure activities.
6. The staff for the telephone hotline of an Internet bank are trained to be polite and friendly.
7. During the FIFA World Cup, more snack food is consumed in front of the TV set.

4. a) Complete the action plans (1-6):

understand *relations* *satisfy*
consumer *differentiate* *development*

1. Convince shareholders that the best way to (1) _____ their needs in the long term is to invest in research and development.
2. Carry out market research to better (2) _____ needs and desires.
3. Prepare a press release for a (3) _____ magazine about the launch of a new product.
4. Build and maintain good (4) _____ by always paying on time.
5. Do a SWOT analysis to assess how to (5) _____ your brand from your competitors'.
6. Implement a training and (6) _____ plan to motivate and keep good members.

b) Match them with the micro factors:

competitors, employees, shareholders, consumers, media, suppliers

5. Complete the PESTLE analysis of France:

distribution *birth* *gender* *employment* *environment* *penetration*
agreements *rates* *religion* *communication* *investors* *purchasing*

France is the largest country in the EU, stretching from the North Sea to the Mediterranean. France is a developed country, ranked as the world's sixth largest economic power in 2017. The country's recovery from the economic crisis has come later than in other European countries. It is a republic, parliamentary democracy combined with presidential power. The political environment is stable in the sense that there is no political trouble, no war, no political crisis, and no conflict; this is a good factor that can attract (1) _____ and new business entry. France is a member of the European Union and has trade (2) _____ with the other members. It has one of the worst unemployment (3) _____ in Europe. Unemployment slightly decreased, reaching 9.2% in December 2017. The labour reform, passed in 2017 and aimed at injecting more flexibility in the labour market, is expected to bear fruit on (4) _____ in 2018.

In 2017, GDP grew by 1.9% according to the national statistics institute (Insee, February 2018). 2017 saw a surge in business investment (+4.4%), in the manufacturing industry production (+2%), in the output of the

agricultural sector (+2.4%), and gains in households' (5) _____ power. As of 2015, the national minimum wage in France remained fixed at 1,458 euros per month. During the first months in office, Emmanuel Macron's government succeeded in passing fiscal reforms and brought the public deficit below the European objective of 3% of GDP.

France has one of the highest (6) _____ rates in Europe (1.9 children per woman). France had population of 64.6 million in 2016 and expected to reach approximately 66.4 million by 2022. This country has a large proportion of French mothers go back to work, reflecting changes in (7) _____ roles. Men are almost as likely as women to do the shopping for the family and take care of the children.

The dominant (8) _____ is Catholicism, but there is a large Muslim community. The religious beliefs do not significantly affect the marketplace, except at Christmas and Easter time when the demand for Christmas trees and chocolate increases dramatically.

France has an excellent scientific and technological (9) _____. Being the world's 4th industrial power, it is one of the world leaders in space technology, in nuclear energy, in computer engineering, in environmental protection. The Internet (10) _____ is high: most households own a computer and have high-speed Internet access. This has opened up new channels of (11) _____ and there are now several Internet grocery stores. Nearly all teenagers own a mobile phone and they are increasingly using SMS messages to keep in touch with their peers. Marketing campaigns are beginning to exploit this line of (12) _____ by sending SMS messages to their audience. Technological and industrial growth funded by the government helps in increasing the standard of living of people.

In France, forest covers about 30.3% of land. France is the first country to have a separate ministry for environment. France is ranked 17th for carbon dioxide emission. France has even imposed a carbon tax.

France faces structural challenges: reducing public spending, improving the country's competitiveness, supporting employment. While hiring written contract are mandatory to all grades and levels. The current standard tax rate is at 19.6%.

6. Translate the sentences into English using the glossary and vocabulary from the text:

1. Предлагаю выстроить взаимоотношения с клиентами через меньшее количество посредников. Анализ маркетинговой стратегии конкурентов показывает, что можно распространять батончики без

посредничества оптовиков или мелких розничных фирм. Пора выходить на новый уровень, пора открывать собственную торговую сеть!

2. Зачем нужны посредники между нами и поставщиками? Если они будут поставлять нам сырье напрямую, мы добьемся снижения цены, а значит увеличим нашу конкурентоспособность.

3. В результате значительных изменений в макроэкономике нашей компании теперь нужно экономить. Нам придется провести сокращения в следующих отделах: развитие и исследования, закупки и бухгалтерия, отдел по связям с местным населением.

4. Альтернативно, мы можем провести слияние двух отделов, чтобы добиться экономии: объединить отдел финансов и бухгалтерию. Новый ФБ отдел будет заниматься поиском фондов для инвестиций, вести учет затрат и доходов, общаться с акционерами.

5. Производство остановилось. На складах нет в наличии детали X. Надо срочно вести переговоры с другими поставщиками.

6. Алло! Это говорит представитель транспортной компании. На железной дороге забастовка, мы не можем произвести доставку в пункт Б в указанные в контракте сроки. Вы ведь застрахованы от таких рисков?

7. Изучение демографической статистики поможет нам проанализировать данный сегмент, привлечь новых и удержать старых потребителей. Также надо изучить мнение широкой общественности о нашем последнем кредитном продукте и провести анализ, в чем покупатель видит потребительскую ценность данной услуги.

III. Discussion

1. Describe any trading block and estimate its importance in the world environment.

2. Fulfil the following tasks:

1. Describe the key societal changes that have taken place in your home country over the past 10 or 20 years.

2. Using the Internet and other library sources outline the characteristics of the main types of economic or business cycle and give examples:

- depression or slump
- recovery
- steady growth
- boom
- recession
- stagnation

3. Think of negative technological effects.
4. Evaluate how the threat of global warming and global dimming could affect business and marketing operations in the future? What do you think are the critical issues that consumers and marketers must consider?
5. Find out the regions where we observe geophysical activity. Estimate the consequences of geophysical activity.

3. Prepare a PESTLE analysis for any country.

4. Make a presentation.

Choose a company. Then examine how macro factors affect the marketing activities of that company within its own domestic environment and within an international context.

5. Read the situation and debate the following questions.

- 1) *Discuss the disadvantages and advantages of companies being green.*
- 2) *What are the main things you think every company should do?*

The environment as a customer.

Take M&S as an example of a New Era firm that assumes a position of environmental stewardship when it makes socially responsible business decision that also protects the environment. A green marketing strategy describes efforts to choose packages, product designs, and other aspects of the marketing mix that are earth-friendly but still profitable. Green marketing practices can indeed result in black ink for firms' bottom line. Credit card companies are finding that their bottom line is benefiting from a recent "green" innovation - corn-based plastic. The corn-based products are biodegradable, renewable and reasonably priced, whereas the price of oil and thus of plastic cards made from oil byproducts has skyrocketed in recent years. Wal-Mart has also the less expensive corn-based plastic to package fresh produce and baked goods - 114 million packages in all in 2005. Other organisations are using corn-based plastic cups for their cold beverages.