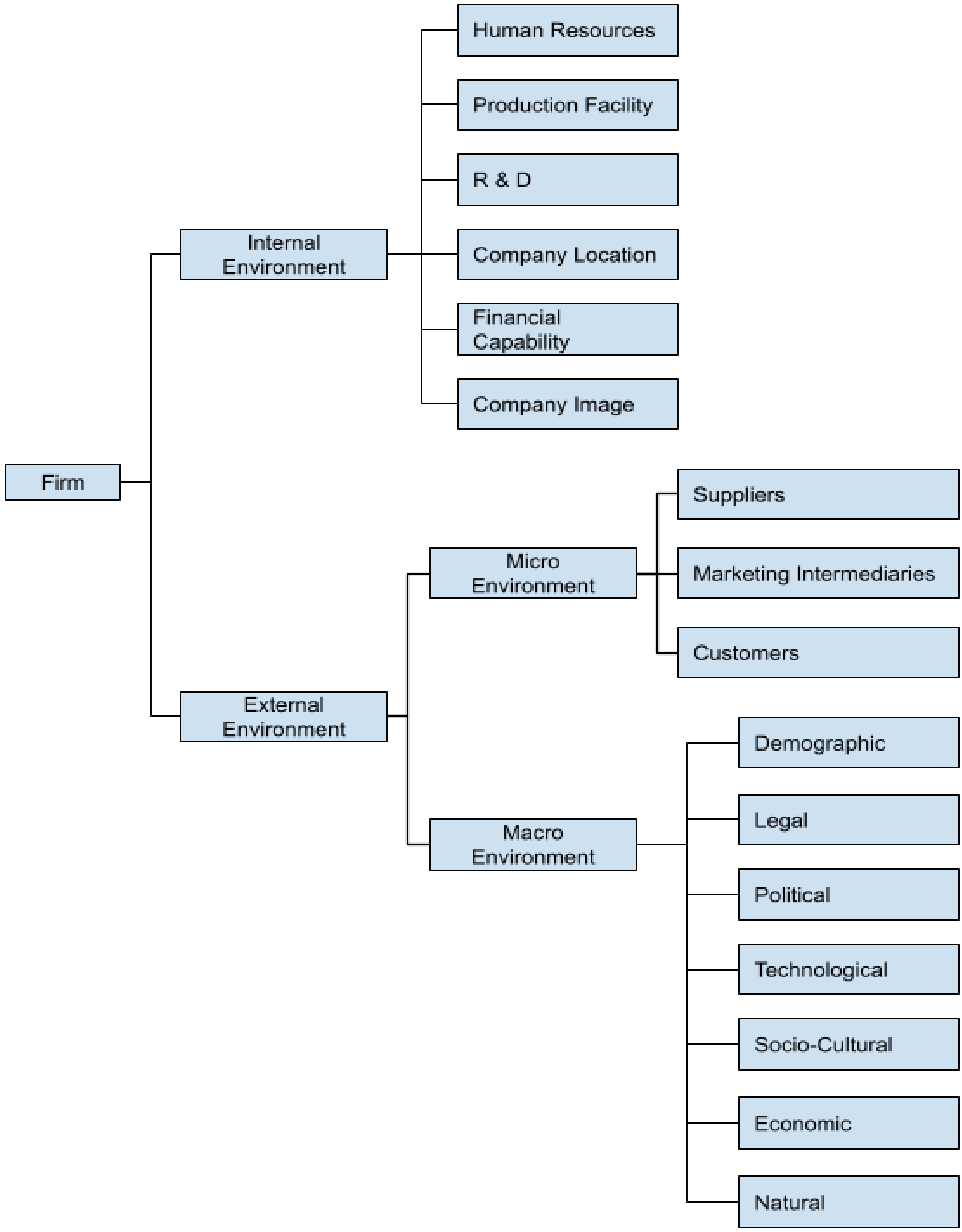
UNIT 3
MARKETING ENVIRONMENT

The performance of a company depends on its sales and its sales depend upon the marketing environment that influences its marketing activities. The marketing activities of an organization focus on satisfying customer needs. Customer needs and wants are again the function of the environment. Therefore, the demand of a product is also affected by the environment in which the organization functions.

Fig. 3.1: Business Environment of a Firm



1. COMPETITIVE FORCES

Competition has a significant impact on the marketing environment. The level of competition depends upon the structure of an industry. The level of competition in an industry decides the marketing dynamics.

Types of Competitive Structures

Competitive structures, or market structures, refer to the number of firms in a market and the nature of competition they face. These structures range from having a single seller to a multitude of sellers, each with different levels of market power. Understanding them helps explain how prices are set and how firms behave in different industries.

1. Pure Competition

Pure competition, or perfect competition, is a theoretical market structure with the highest level of competition. In this environment, no single firm has any power to influence the market price; every firm is a price taker.

- **Many Sellers and Buyers**: The market has an extremely large number of firms and consumers.
- **Homogeneous Products**: All firms sell identical, standardized products.
- **Free Entry and Exit**: There are no barriers to prevent new firms from entering or existing firms from leaving the market.
- **Perfect Information**: All participants have full and complete knowledge of prices and products.
- **Example**: The market for agricultural products like wheat or corn is often cited as a close real-world example.

2. Monopolistic Competition

Monopolistic competition features many firms selling differentiated products. While the products are similar, they are not identical, which gives firms some limited control over their prices.

- **Many Sellers**: Numerous firms compete, but none has a significant market share.
- **Differentiated Products**: Firms make their products stand out through branding, quality, features, or marketing.
- **Easy Entry and Exit**: It's relatively easy for new firms to enter and compete in the market.
- **Non-price Competition**: Firms compete heavily using advertising and branding to build a customer base.
- **Example**: Industries like restaurants, clothing, and hair salons are classic examples.

3. Oligopoly

An oligopoly is a market dominated by a small number of large firms. These firms are highly interdependent, and the actions of one firm directly affect the others.

- **Few Sellers**: A handful of firms control most of the market share.
- **High Barriers to Entry**: New firms find it very difficult to enter the market due to significant obstacles like high start-up costs.
- **Interdependence**: Firms must consider the potential reactions of their competitors when making strategic decisions about pricing or production.
- **Homogeneous or Differentiated Products**: Products can be either identical (like steel) or differentiated (like cars).
- **Example**: The airline, wireless carrier, and automobile industries are all prime examples of oligopolies.

4. Monopoly

A monopoly is a market structure with a single seller who has complete control over the market for a particular good or service. The monopolist is a price maker, meaning it can set the price of its product.

- **Single Seller**: There is only one firm in the entire industry.
- **Unique Product**: The product has no close substitutes.
- **High Barriers to Entry**: Entry into the market is blocked, often by legal restrictions, control of essential resources, or massive start-up costs.
- **Price Maker**: The firm has the power to set prices to maximize its profits.
- **Example**: Utility companies that provide water or electricity to a specific region are often considered natural monopolies.

2. MACRO ENVIRONMENTAL FACTORS

Macro-environmental factors are large-scale, external forces that affect a business's operations, performance, and strategy. Businesses have little to no control over these factors, but they must adapt to them to remain competitive and successful. They are often analyzed using frameworks like PESTLE (Political, Economic, Socio-cultural, Technological, Legal, Environmental).

1. Demographic Environment

This factor deals with the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics. Changes in these characteristics can create new markets or make old ones obsolete.

- **Consumer Groups**: Businesses segment the market based on groups like infants, children, young adults, adults, and senior citizens, as each has different needs and buying habits.
- **Occupation and Literacy**: The education and type of work people do affect their income and consumption patterns.

- **Location and Cultural Diversity**: Population shifts to urban or suburban areas and increasing cultural diversity can change demand for products and services.

2. Political Environment

The political environment includes government policies, laws, and political stability, both domestic and international, that influence and regulate a business's operations.

- **Domestic Politics**: A stable political climate, government fiscal policies (taxation, spending), and regulations can either encourage or discourage business investment and growth.
- **International Politics**: Geopolitical events, trade agreements, and foreign relations can impact international trade, supply chains, and market access.

3. Economic Environment

This factor involves the broad economic conditions that influence consumer spending and business costs. It dictates the buying power and spending patterns of the general population.

- **General Economy**: Key indicators like GDP trends, inflation, and unemployment rates all impact how much money consumers have and are willing to spend.
- **Business Cycle**: The cyclical fluctuations of the economy, including growth/prosperity, recession, depression, and recovery, determine consumer and business confidence.
- **Buying Power**: A person's ability to buy is influenced by their income, credit availability, and wealth.
- **Willingness to Spend**: Consumer confidence and sentiment, which can be influenced by economic stability and future outlook, affect whether they choose to save or spend.

4. Socio-Cultural Environment

The socio-cultural environment refers to the societal forces that affect a population's basic values, perceptions, preferences, and behaviors. This includes lifestyle trends, cultural beliefs, and social norms. Businesses must adapt their products and marketing to align with these trends.

- **Example**: The increasing focus on health and wellness has led to a boom in organic food, fitness apps, and athleisure wear.

5. Technology Environment

This factor includes the advancements in technology that create new products, services, and market opportunities. It can also disrupt existing industries and business models.

- **Impact**: Technology affects everything from a company's production processes and communication to how it reaches customers (e.g., e-commerce, social media marketing). A firm unable to adapt to technological change may not survive.

6. Natural Environment

The natural environment includes the physical resources and conditions that affect businesses. This has become increasingly important due to growing environmental concerns and resource scarcity.

- **Raw Materials**: The availability of natural resources like minerals, water, and forests is crucial for many industries.
- **Climate and Weather**: Geographic factors and climate change can affect operations, supply chains, and consumer demand (e.g., demand for certain clothing or products is climate-dependent).
- **Example**: Businesses are under pressure to adopt sustainable practices and reduce their environmental footprint.

7. Legal Environment

This factor consists of the laws, government agencies, and pressure groups that influence and restrict various organizations and individuals within society.

- **Consumer Protection**: Laws and agencies, such as the Central Consumer Protection Authority (CCPA) in India, are established to safeguard consumers against unfair trade practices and false advertising.
- **State and Non-Government Regulatory Agencies**: These bodies (e.g., industry-specific regulators) set and enforce rules that businesses must follow, covering everything from product safety to labor practices.

3. PORTER’S FIVE FORCE MODEL

Porter's Five Forces Model is a framework for analyzing the competitive intensity and profitability of an industry. Developed by Harvard Business School professor Michael Porter, the model goes beyond just looking at direct rivals to identify five key forces that shape competition and determine long-term profitability.

1. Threat of New Entrants

This force assesses how easy or difficult it is for new companies to enter a specific industry. If entry barriers are low, new firms can easily join the market, increasing competition and potentially driving down prices and profitability for existing firms. High barriers to entry, such as economies of scale, high capital requirements, strong brand loyalty, or government regulations, protect existing firms and make the industry more attractive.

- **Example**: The pharmaceutical industry has high barriers to entry due to the huge costs of research, development, and regulatory approval. In contrast, the food truck industry has relatively low barriers to entry.

2. Bargaining Power of Suppliers

This force measures the power that suppliers have to increase prices or reduce the quality of their goods and services. A supplier group is powerful if it is concentrated (few suppliers), if its product is unique, or if a firm would face high costs to switch to a different supplier.

- **Example**: In the smartphone industry, suppliers of unique, high-quality components like OLED displays have significant bargaining power over phone manufacturers.

3. Bargaining Power of Buyers

This force assesses the power customers have to drive down prices. Buyers have more power when they are few in number, purchase large volumes, have many substitute options, or face low switching costs. If buyers can easily switch to a competitor's product, they can exert pressure on firms to lower prices or improve quality.

- **Example**: Large retail chains like Walmart have immense bargaining power over their suppliers because they purchase goods in massive volumes.

4. Threat of Substitute Products or Services

A substitute product is a different product that can satisfy the same customer need. This force analyzes the threat posed by alternatives from outside the industry. The threat is high if the substitute offers a good price-performance trade-off and if the buyer's cost of switching to the substitute is low.

- **Example**: Video streaming services like Netflix and Hulu are a strong substitute threat to traditional cable TV services.

5. Rivalry Among Existing Competitors

This central force evaluates the intensity of competition between firms already in the industry. Rivalry is fierce when there are many competitors of similar size, slow industry growth, and high exit barriers (making it difficult for firms to leave the market, forcing them to compete aggressively).

- **Example**: The fast-food industry is characterized by intense rivalry, with competitors constantly engaging in price wars and aggressive marketing campaigns to attract customers.