

# Market Environment

It refers to the factors and forces that affect a firm's ability to build and maintain successful relationships with customers. A variety of environmental forces influence a company's marketing system.

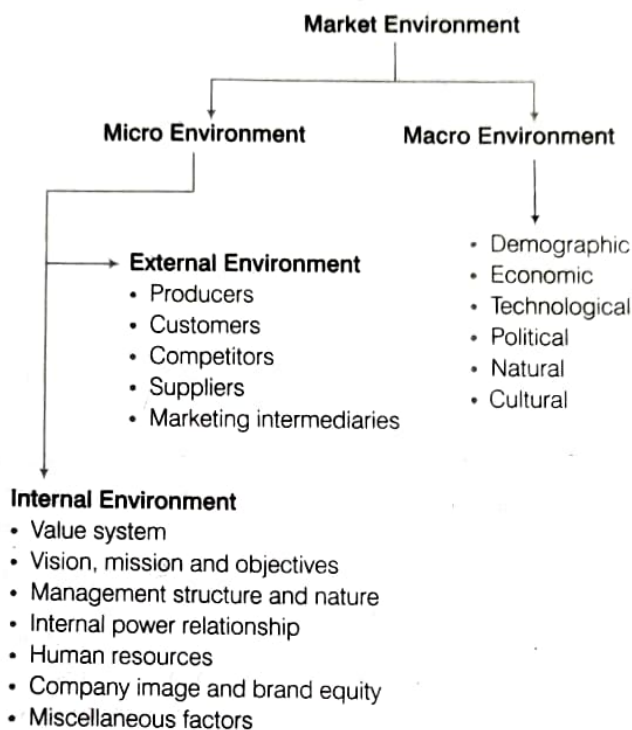
Some of them are controllable while some others are uncontrollable. It is the responsibility of the marketing manager to change the company's policies along with the changing environment, or else be left behind in the market as in the case of Motorola and Satyam.

Motorola, a few years back, dominated the mobile industry. Earlier, it had almost 50% of the cell phone handset market, which now is merely 17%. Satyam once ranked 4th in the top Indian IT companies list in 2008, but collapsed in 2009. The reason for failure of the above two companies was their inability to adapt to the changing environment.

Today, even the most established Indian brands are facing their biggest challenges in the changing environment and are drawing up plans to protect their market base.

## Classification of Market Environment

*The various factors and forces governing or exerting a pressure on the market can be categorised as:*



### Micro Environment (Primary Forces)

This environment is made up of factors that are close to the firm and affect it on a day-to-day basis. Usually, these factors interact with the firm or are involved in the same industry. *The micro environment can be further classified as:*

#### 1. Internal Environment

This environment is made up of factors within the firm itself. *The internal environment comprises of:*

- Value system** The value system of the business has an important bearing on the choice of business, the mission and objectives of the organisation, business policies and practices, etc. It is a widely acknowledged fact that the extent to which the value system is shared by all in the organisation is an important factor contributing to its success. e.g. after the EID Parry group was taken over by the Murugappa group, one of the most profitable businesses of Parry group, that of liquor, was sold off by Murugappa group, as the liquor business did not fit into the value system of Murugappa group.



(ii) **Vision, mission and objectives** The business domain of the company, priorities, direction of development, business philosophy, business policy, etc., are guided by the vision, mission and objectives of the company. e.g. Ranbaxy's thrust into the foreign markets and development has been driven by its mission, "to become a research based international pharmaceutical company".

(iii) **Management structure and nature** The organisational structure, the composition of the Board of Directors, extent of professionalisation of management, etc., are important factors influencing business decisions. e.g. Reliance India Limited (RIL) follows decentralisation of power as its management structure. This facilitates quick decision-making.

(iv) **Internal power relationship** The amount of support the top management enjoys from different levels of employees, shareholders and Board of Directors has important influence on the decisions and their implementation. e.g. Infosys has been able to take difficult decision because of the trust placed on management by its shareholders and employees.

(v) **Human resources** The characteristics of the human resources like skill, quality, morale, commitment, attitude, etc., could contribute to the strengths and weaknesses of an organisation. e.g. Infosys views its employees as its key resource. With 'wealth creation for employees' as one of its stated objectives, Infosys provides innovative compensation and benefit packages which enable it to attract top talent to contribute to its success.

(vi) **Company image and brand equity** The image of the company matters while raising finance, forming joint ventures or other alliances, soliciting marketing intermediaries, entering into purchase or sale contracts, launching new products, etc. e.g. The Bajaj group was able to enter into joint venture with Kawasaki of Japan because of its brand image.

(vii) **Miscellaneous factors** Other internal factors which contribute to the success or failure of the business are as follows:

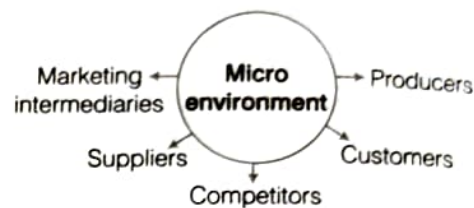
- **Physical assets and facilities** like production capacity, level of technology, quality standards, etc.
- **Research and development capabilities** determine a company's ability to innovate and compete.
- **Marketing resources** like quality of marketing men, brand equity, etc., affect a company's profitability.
- **Financial factors** like financial policies, financial position and capital structure are also important internal environment affecting business performances, strategies and decisions.

These factors are also termed as controllable factors because they can be controlled by the business. The goals, objectives, policies, strategies, etc., of the organisation are the foremost forces which govern a firm's market strategy.

## 2. External Environment

This environment at the micro level is made up of individuals and organisations that are close to the business and directly impact the customer experience.

*It comprises of the following forces:*



(i) **Producers/Sellers** If more is the number of producers, harder and healthier would be the competition. Ethics, values, principles, creativity, innovativeness of the seller help in setting trends for market. It is the producer and his/her abilities that can create a market. Today we have markets for unconventional services like yoga, pranic healing, astrology, etc., and all credit goes to sellers.

Also, successful producers are those who can recognise and respond profitably to unmet needs and trends in the society. Unmet needs always exist in the society. Those producers who are able to satisfy these needs in a cost effective manner can be successful.

### POWER TO RULE

Choose companies who could solve any of the following problems. They will not only make a fortune, but will rule the world market.

- A sure shot cure for cancer.
- Permanent chemical cure for mental diseases.
- Desalinisation of sea water.
- Non-fattening tasty nutritious food.
- Voice controlled computer, etc.
- 'Performing sellers' sustain and succeed in the market.

*Those producers rule the market, who are capable of:*

- Keeping themselves aware of market needs and trends.
- Giving market a solution for their unmet needs.
- Identifying opportunities and threats in the environment.



- (ii) **Customers** According to **Charles G Mortimer**, "Instead of trying to market what is essential for us to make, we must find out much more about what the consumer is willing to buy .... we must apply our creativity more intelligently to people and their wants and needs, rather than products".

So, what he actually wants to convey is that 'consumer is the king'. He is the most influential force which rules the market. A business exists only because of its customers. Therefore, customer satisfaction is the foundation stone of a successful business. Business has to produce goods according to the needs of the customers.

For creating, maintaining and retaining customers, a business should take into consideration the following factors:

- Traditions, customs, beliefs and values of society and customers.
- Lifestyle, standard of living and consumption habits of the customers.
- Propensity to consume and save.

**NOTE** **Propensity to consume** is a measure of change in consumption pattern of a consumer due to change in his income.

**Propensity to save** is a measure of change in the savings of a consumer due to change in his income.

- Education level and thinking behaviour of the customers.
- Income level of the customers.
- Various other demographic characteristics of the customers, etc.

Consumer demand is the most important factor of the external micro environment as demand from consumers directly affects an enterprise's:

- Profitability
- Reputation and goodwill
- Expansion plans

- (iii) **Competitors** They are such factors in the external micro environment that provide similar offerings for goods and services. To remain competitive, an enterprise must consider who are their biggest competitors. With the introduction of the LPG policies (Liberalisation, Privatisation and Globalisation), the level of competition has expanded to international level. For a business to be successful, it should make a correct assessment regarding:

- Who are our competitors?
- Level/size of competitors.

- The areas of strengths/weaknesses of competitors.
- The financial standing of competitors.
- Overall image of competitors' products in the market.
- Operational capacity of the competitors.

Keeping the above factors in mind, an enterprise should develop a plan that gives them a strategic advantage over their competitors or else their business is bound to fail. As **Edmund Burke** very rightly said, "An opponent is our helper".

For example, Eastman Kodak, in its film business, has been worrying about the growing competition from Fuji—the Japanese filmmaker. But in reality, Kodak faced a much greater threat from the recent invention of the 'filmless camera' sold by Canon and Sony, which takes video, still pictures to be shown on a TV receiver. What greater threat is there to a film business than a filmless camera!

- (iv) **Suppliers** A business is essentially a resource conversion machine that converts material, machines, labour and funds into useful products and these resources are obtained from the suppliers. So, suppliers are also the key component in the market system. The success of a business depends on how effectively a company manages its suppliers.

The following factors should be kept in mind for effective supplier management:

- A business should always have multiple sources of suppliers.
- Cordial relationships should be built with the suppliers to ensure supply in times of shortage.
- Suppliers should be paid on time.

- (v) **Marketing intermediaries** These are firms or individuals that facilitate the flow of goods and services between a business and its final consumers. These intermediaries aid a business in promoting, selling and distributing its goods to final buyers. They include re-sellers (i.e. wholesalers, retailers, agents and brokers), transporters, warehouses, banks and promoting agencies. All these institutions/individuals facilitate exchange in the market.

The important factors to be kept in mind by an entrepreneur regarding this factor are as follows:

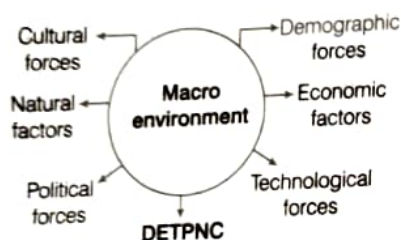
- Cost of distribution.
- Retail margin of the intermediaries.
- Nature of the product and the market.
- Infrastructural facilities available.

## Macro Environment (Secondary Forces)

It is also known as general and remote environment, and refers to factors which affect a business in general. A business and the forces in its micro environment operate in a large macro environment that shapes opportunities and poses threats to the business.

The macro forces are uncontrollable factors and therefore, the success of a business depends on its adaptability to this environment with the help of micro environment forces. e.g. if the cost of imported raw material increases substantially because of depreciation of domestic currency, then a company may adopt to this change by sourcing the material from domestic manufacturers.

The various forces operating in this environment are as follows:



1. **Demographic Forces** These forces refer to human population in terms of size, density, location, age, gender, race and occupation.

As we know that market is people in the sense that the demand of a product or a service depends on the people and their characteristics like their tastes and preferences, beliefs, income levels, etc.

Therefore, demographic forces are important factors of the macro environment.

Important demographic bases of market segmentation include the following:

- (a) Age structure. e.g. classifying groups of people according to the year they were born. These classifications can be referred to as 'baby boomers' who were born between 1946-1964; 'generation-X' who were born between 1965- 1976; 'generation-Y' who were born between 1977-1994 and so on.
- (b) Gender
- (c) Income distribution
- (d) Family size
- (e) Family life cycle (e.g. young-single, young- married with no children, young-married with children, etc.)
- (f) Occupation
- (g) Education
- (h) Social class
- (i) Religion
- (j) Race
- (k) Nationality

It should be remembered that the demographic environment differs from country-to-country and from place-to-place within the same country or region. Also, it changes significantly over time. Peter Drucker also suggests that any strategy, that is any commitment of present resources to the future expectations has to start out with demographics.

2. **Economic Factors** These factors include the structure and nature of economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets, global economic linkages, economic policies of the government, etc. These factors are important as they affect the purchasing power of the customers and the way in which they spend their income. e.g. a buyer's behaviour will be different in boom than what it was in depression.

Chart Depicting Important Factors of Economic Environment

Structure and nature of economy	Economic conditions	Economic policies	Global linkages
<ul style="list-style-type: none"> <li>• Level of development in the economy</li> <li>• Sectoral composition of output</li> <li>• Inter-sectoral linkages</li> </ul>	<ul style="list-style-type: none"> <li>• Income levels</li> <li>• Distribution of income</li> <li>• GDP trends</li> <li>• Sectoral growth trends</li> <li>• Demand and supply trends</li> <li>• Price trends</li> <li>• Foreign exchange reserves position</li> <li>• Global economic trends</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial policy</li> <li>• Trade policy</li> <li>• Monetary policy</li> <li>• Fiscal policy</li> <li>• Foreign exchange policy</li> <li>• Foreign investment and technology policy</li> </ul>	<ul style="list-style-type: none"> <li>• Magnitude and nature of cross border trade flows and financial flows</li> <li>• Membership of WTO, IMF, World Bank, etc.</li> </ul>



3. **Technological Forces** Technology is one of the important determinants of success of a firm as well as the factor affecting the economic and social development of a nation. Technology includes the tools, i.e. both machines (hard technology) and ways of thinking (soft technology) available to solve problems and promote progress between and among societies. The technological environment is perhaps one of the fastest changing factors in the macro environment.

*The following factors related to this environment are important for a business:*

- Type of technology used.
- Level of technological developments.
- The speed with which new technologies are adopted and diffused.
- The type of technology that is appropriate.
- The technology policy, etc.

This factor helps a business to gain a competitive edge over its competitors. As **Michael Porter** says, "Technological change is one of the principal drivers of competition. It plays a major role in an industry's structural change as well as in creating new industries. It is also a great equaliser, eroding the competitive advantage of even well-entrenched firms and propelling others to the forefront".

Many of today's great firms grew out of technological changes that they were able to exploit. Of all the things that can change the rules of competition, technological change is among the most prominent. This environment includes all developments from antibiotics and surgery to nuclear missiles and chemical weapons to automobiles and credit cards. Advances in technology provides a business with opportunities related to new products, new ways of selling, new markets and latest trends.

4. **Political Forces** The political environment includes all laws, government agencies and groups that influence or limit other organisations and individuals within a society. The fact that it is often politics that determines economic and business policies highlights the critical importance of the political environment to business.

As **Dimock** observes, "The two most powerful institutions in society today are business and government, where they meet on common ground amicably or otherwise, together they determine public policy, both foreign and domestic, for a nation".

*The important factors to be considered in this environment are as follows:*

- Characteristics and policies of the political parties.
- The nature of the Constitution.

- The nature of the government system—whether democratic or dictatorial.
- The government environment encompassing the economic and business policies and regulations.

This factor is very important as the fate of businesses and markets depend to a large extent upon the political conditions of areas where they are situated. As laws and regulations change often, this is a very important aspect for a marketer to monitor.

5. **Natural Factors** These factors include the natural resources that a company uses as inputs and affects their marketing activities.

As **Watricks and Wood** observe, "The natural environment ultimately is the source and support of everything used by businesses (and almost any other human activity), every raw material, every energy source, every life sustaining factor, even every waste disposal site". The natural environment determines what can be got done in a society and how institutions can function.

*The major concerns in this area are as follows:*

- Increased pollution** Pollutants emitted by an enterprise can negatively affect a firm's reputation if they are known for damaging the environment.
- Shortage of raw material** As raw materials become increasingly scarce, the ability to create a company's product gets much harder.
- Government intervention** A firm may find it increasingly harder to achieve its goals if statutory requirements get more stringent.

6. **Cultural Forces** The cultural environment consists of institutions and basic values and beliefs of a group of people. The values can be further classified into core beliefs, which are passed on from generation-to-generation and are therefore difficult to change and secondary beliefs, which are acquired and therefore are easier to influence. Market reflects the values of a target audience, therefore a marketing manager must study the society in which he operates.

e.g. in India, we have different cultural groups such as Assamese, Punjabis, Kashmiris, etc. The marketing manager should take note of their cultural differences before finalising the marketing strategy. Every organisation and industry is in a delicate balance with the forces in its environment. As the environment changes, it calls for a creative adaptation or response on the part of the entities interacting with it.

Nations (Assyria), species (dinosaurs) and industries (Kingfisher) have collapsed because they failed to meet environmental challenges with creative responses.

Basis	Micro environment	Macro environment
<b>Meaning</b>	Micro environment is made up of factors that are close to the firm and affect it on day-to-day basis. Usually these forces interact with the firm or are involved in the same industry.	Macro environment, also known as general and remote environment refers to factors which affect a business in general.
<b>Further classification</b>	It can be further classified as: (i) Micro internal environment (ii) Micro external environment	Macro environment comprises of only external factors.
<b>Factors comprising of environment</b>	<p>The internal environment comprises of:</p> <ul style="list-style-type: none"> <li>(i) Value system</li> <li>(ii) Vision, mission and objectives</li> <li>(iii) Management structure and nature</li> <li>(iv) Internal power relationship</li> <li>(v) Human resources</li> <li>(vi) Company image and brand equity</li> <li>Miscellaneous factors</li> </ul> <p>The external environment comprises of:</p> <ul style="list-style-type: none"> <li>(i) Customers</li> <li>(ii) Competitors</li> <li>(iii) Suppliers</li> <li>(iv) Marketing intermediaries</li> <li>(v) Producers</li> </ul>	<p>The external factors affecting macro environment are as follows:</p> <ul style="list-style-type: none"> <li>(i) Demographic forces</li> <li>(ii) Economic factors</li> <li>(iii) Technological forces</li> <li>(iv) Political forces</li> <li>(v) Natural factors</li> <li>(vi) Cultural forces</li> </ul>
<b>Degree of control</b>	The internal environment is controllable whereas the external environment is controllable to some extent.	The macro environment is uncontrollable.
<b>Interdependence</b>	The micro environment is dependent on macro environment.	Macro environment is independent.
<b>Example</b>	A new competitor entering in the market.	Government introduces GST.