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**M. Com. Semester – II (Session: 2019-2021)
Subject: Marketing Management
Unit: II (Marketing Environment)**

Unit – II Marketing Environment: Micro and Macro Environment; the components and their role in making the marketing decision.

Marketing Environment

1. Meaning of Marketing Environment:

The marketing environment refers to all internal and external factors, which directly or indirectly influence the organization's decisions related to marketing activities. Internal factors are within the control of an organization; whereas, external factors do not fall within its control. The external factors include government, technological, economical, social, and competitive forces; whereas, organization's strengths, weaknesses, and competencies form the part of internal factors.

Marketers try to predict the changes, which might take place in future, by monitoring the marketing environment. These changes may create threats and opportunities for the business. With these changes, marketers continue to modify their strategies and plans.

Definition of Marketing Environment:

According to **Philip Kotler** :“A company's marketing environment consists of the internal factors & forces, which affect the company's ability to develop & maintain successful transactions & relationships with the company's target customers.”

2. Features of Marketing Environment:

Today's marketing environment is characterized by numerous features, which are mentioned as follows:

1. Specific and General Forces: It refers to different forces that affect the marketing environment. Specific forces include those forces, which directly affect the activities of the

organization. Examples of specific forces are customers and investors. General forces are those forces, which indirectly affect the organization. Examples of general forces are social, political, legal, and technological factors.

2. Complexity: It implies that a marketing environment include number of factors, conditions, and influences. The interaction among all these elements makes the marketing environment complex in nature.

3. Vibrancy: Vibrancy implies the dynamic nature of the marketing environment. A large number of forces outline the marketing environment, which does not remain stable and changes over time. Marketers may have the ability to control some of the forces; however, they fail to control all the forces. However, understanding the vibrant nature of marketing environment may give an opportunity to marketers to gain edge over competitors.

4. Uncertainty: It implies that market forces are unpredictable in nature. Every marketer tries to predict market forces to make strategies and update their plans. It may be difficult to predict some of the changes, which occurs frequently. For example, customer tastes for clothes change frequently. Thus, fashion industry suffers a great uncertainty. The fashion may live for few days or may be years.

5. Relativity: It explains the reasons for differences in demand in different countries. The product demand of any particular industry, organization, or product may vary depending upon the country, region, or culture.

3. Types of Marketing Environment:

The sale of an organization depends on its marketing activities, which in turn depends on the marketing environment. The marketing environment consists of forces that are beyond the control of an organization but influences its marketing activities. The marketing environment is dynamic in nature.

Therefore, an organization needs to keep itself updated to modify its marketing activities as per the requirement of the marketing environment. Any change in marketing environment brings threats and opportunities for the organization. An analysis of these changes is essential for the survival of the organization in the long run.

A marketing environment mostly comprises of the following types of environment:

1. Micro Environment
2. Macro Environment

The discussions of these environments are given below:

1. Micro Environment:

Micro environment refers to the environment, which is closely linked to the organization, and directly affects organizational activities. It can be divided into supply side and demand side environment. Supply side environment includes the suppliers, marketing intermediaries, and competitors who offer raw materials or supply products. On the other hand, demand side environment includes customers who consume products.

Following are the forces of Micro Environment:

- i. Suppliers:** It provides raw material to produce goods and services. Suppliers can influence the profit of an organization because the price of raw material determines the final price of the product. Organizations need to monitor suppliers on a regular basis to know the supply shortages and change in the price of inputs.

ii. Marketing Intermediaries: It helps organizations in establishing a link with customers. They help in promoting, selling, and distributing products.

Marketing intermediaries include the following:

a. Resellers: It purchases the products from the organizations and sell to the customers. Examples of resellers are wholesalers and retailers.

b. Distribution Centers: It helps organizations to store the goods. A warehouse is an example of distribution center.

c. Marketing Agencies: It promotes the organization's products by making the customers aware about benefits of products. An advertising agency is an example of marketing agency.

d. Financial Intermediaries: It provides finance for the business transactions. Examples of financial intermediaries are banks, credit organizations, and insurance organizations.

iii. Customers: Customers buy the product of the organization for final consumption. The main goal of an organization is customer satisfaction. The organization undertakes the research and development activities to analyze the needs of customers and manufacture products according to those needs.

iv. Competitors: It helps an organization to differentiate its product to maintain position in the market. Competition refers to a situation where various organizations offer similar products and try to gain market share by adopting different marketing strategies.

2. Macro Environment:

Macro environment involves a set of environmental factors that is beyond the control of an organization. These factors influence the organizational activities to a significant extent. Macro environment is subject to constant change. The changes in macro environment bring opportunities and threats in an organization.

Following are the factors of Macro Environment:

i. Demographic Environment: Demographic environment is the scientific study of human population in terms of elements, such as age, gender, education, occupation, income, and location. It also includes the increasing role of women and technology. These elements are also called as demographic variables. Before marketing a product, a marketer collects the information to find the suitable market for the product.

Demographic environment is responsible for the variation in the tastes and preferences and buying patterns of individuals. The changes in demographic environment persuade an organization to modify marketing strategies to address the altering needs of customers.

ii. Economic Environment: Economic environment affects the organization's costs structure and customers' purchasing power. The purchasing power of a customer depends on the current income, prices of the product, savings, and credit availability.

The factors economic environment is as follows:

a. Inflation: It influences the customers' demand for different products. For example, higher petrol prices lead to a fall in demand for cars.

b. Interest Rates: It determines the borrowing activities of the organization. For example, increase in interest rates for loan may lead organizations to cut their important activities.

- c. **Unemployment:** It leads to a no income state, which affects the purchasing power of an individual.
- d. **Customer Income:** It regulates the buying behavior of a customer. The change in the customer's income leads to changed spending patterns for the products, such as food and clothing.
- e. **Monetary and Fiscal Policy:** It affects all the organizations. The monetary policy stabilizes the economy by controlling the interest rates and money supply in an economy; whereas, fiscal policy regulates the government spending in various areas by collecting the revenue from the citizens by taxing their income.

iii. Natural Environment: Natural environment consists of natural resources, which are needed as raw materials to manufacture products by the organization. The marketing activities affect these natural resources, such as depletion of ozone layer due to the use of chemicals. The corrosion of the natural environment is increasing day-by-day and is becoming a global problem.

Following natural factors affect the marketing activities of an organization:

- a. **Natural Resources:** It serves as raw material for manufacturing various products. Every organization consumes natural resources for the production of its products. Organizations are realizing the problem of depletion of resources and trying best to use these resources judiciously. Thus, some organizations have indulged in de-marketing their products. For example, Indian Oil Corporation (IOC) tries to reduce the demand for its products by promoting advertisements, such as Save Oil, Save India.
 - b. **Weather:** It leads to opportunities or threats for the organizations. For example, in summer, demand for water coolers, air conditioners, cotton clothes, and water increases while in winter, the demand for woolen clothes and room heaters rises. The marketing environment is greatly influenced by the weather conditions of a country.
 - c. **Pollution:** It includes air, water, and noise pollution, which lead to environmental degradation. Now-a-days, organizations tend to promote environment friendly products through its marketing activities. For example, the organizations promote the usage of jute and paper bags instead of plastic bags.
- iv. Socio-Cultural Environment:** Socio-cultural environment comprises forces, such as society's basic values, attitudes, perception, and behavior. These forces help in determining that what type of products customers prefer, what influences the purchase attitude or decision, which brand they prefer, and at what time they buy the products. The socio-cultural environment explains the characteristics of the society in which the organization exists. The analysis of socio-cultural environment helps an organization in identifying the threats and opportunities in an organization. For example, the lifestyles of people are changing day-by-day. Now, the women are perceived as an active earning member of the family. If all the members of a family are working then the family has less time to spend for shopping. This has led to the development of shopping malls and super markets, where individuals could get everything under one roof to save their time.
- v. **Technological Environment:** Technology contributes to the economic growth of a country. It has become an indispensable part of our lives. Organizations that fail to track

ongoing technological changes find it difficult to survive in today's competitive environment.

Technology acts as a rapidly changing force, which creates new opportunities for the marketers to acquire the market share. Marketers with the help of technology can create and deliver products matching the life style of customers. Thus, marketers should observe the changing trends in technology.

Following are the technological trends that affect the marketing environment:

- a. **Pace of Technological Change:** It leads to product obsolescence at a rapid pace. If the pace of technological change is very rapid then organizations need to modify their products as and when required. On the other hand, if the technology is not changing at a rapid pace then there is no need for the organization to bring constant changes in the product.
- b. **Research and Development:** It helps in increasing growth opportunities for an organization. Many organizations have developed a separate team for R&D to bring innovation in its products. Pharmaceutical organizations, such as Ranbaxy and Cipla, have started putting greater force in R&D and these efforts have led to great opportunities in global market.
- c. **Increased Regulation:** It refers to government guidelines to ban unsafe products. Marketers should be aware of these regulations to prevent their violation. Every pharmaceutical organization takes the approval of the Drugs Controller of India, which lays down the standards for drugs manufacturing.

vi. Political and Legal Environment: Political and legal environment consists of legal bodies and government agencies that influence and limit the organizations and individuals. Every organization should take care of the fact that marketing activities should not harm the political and legal environment prevailing in a country. The political and legal environment has a serious impact on the economic environment of a country.

Various legislations affecting the marketing activities are as follows:

- a. Anti-pollution laws, which affect the production or manufacturing of various products.
- b. Customer legislation, which tries to protect the customer's interest.

The important acts set by the Indian government, which effect the marketing environment of an organization:

- i. Prevention of Food and Adulteration – 1954
- ii. Drugs Control Act – 1954
- iii. Company Act – 1956
- iv. Standard Weights and Measurement Act – 1956
- v. MRTP- Monopoly and Restrictive Trade Practices – 1969
- vi. Display of Price Order – 1963
- vii. Indian Patents Act – 1970
- viii. Packaged Commodities Order – 1975
- ix. Environment Act – 1986
- x. Consumer Protection Act – 1986

4. Need for Analyzing the Marketing Environment:

The business environment is not static. It is continuously changing with fast speed.

The marketing environmental analysis will help the marketer to:

- i. Become well acquainted with the changes in the environment.
- ii. Gain qualitative information about the business environment; which will help him to develop strategies in order to cope with ever changing environment.
- iii. Conduct marketing analysis in order to understand the markets needs and wants so as to modify its products to satisfy these market requirements.
- iv. Decide on matters related to Government-legal-regulatory policies in a particular country so as to formulate its strategies successfully amidst these policies.
- v. Allocate its resources effectively and diversify either into a new market segment or totally into a new business which is outside the scope of its existing business.
- vi. Identify the threats from the environment in terms of new competitors, price wars, competitor's new products or services, etc.; and prepare its strategies on the basis of that.
- vii. Identify the opportunities in the environment and exploit these opportunities to firm's advantage. These opportunities can be in terms of emergence of new markets; mergers, joint ventures, or alliances; market vacuum occurred due to exit of a competitor, etc.
- viii. Identify its weaknesses such as lower quality of goods or services; lack of marketing expertise; or lack of unique products and services; and prepare strategies to convert its weaknesses into strengths.
- ix. Identify its strengths and fully exploit them in firm's advantage. These strengths can be in terms of marketing expertise, superior product quality or services, or giving unique innovative products or services.

5. Importance of Marketing Environment:

The study of marketing environment is essential for the success of an organization.

The discussion of importance of marketing environment is as follows:

- 1. Identification of Opportunities:** It helps an organization in exploiting the chances or prospects for its own benefit. For example, if an organization finds out that customers appreciate its products as compared to competitors' products then it might encash this opportunity by giving discounts on its products to boost sale.
- 2. Identification of Threats:** It gives warning signals to organizations to take the required steps before it is too late. For example, if an organization comes to know that a foreign multinational is entering into the industry then it can overcome this threat by adopting strategies, such as reducing the product's prices or carrying out aggressive promotional strategies.
- 3. Managing Changes:**

It helps in coping with the dynamic marketing environment. If an organization wishes to survive in the long run then it has to adapt to the changes occurring in the marketing environment.

Difference between Macro and Micro Environment of Marketing



Every business organization is a part of the business environment, within which it operates. No entity can function in isolation because there are many factors that closely or distantly surrounds the business, which is known as a business environment. It is broadly classified into two categories, i.e. **microenvironment**, and **macro environment**. The former affects the working of a particular business only, to which they relate to, while the latter affects the functioning of all the business entities, operating in the economy.

The difference between macro environments and micro environments may be relevant to identify in the following table:

Point of difference	Macro-environment	Microenvironment
Meaning	External environment of an organization.	Inter environments of an organization.
Definition	Micro environment is defined as the nearby environment, under which the firm operates.	Macro environment refers to the general environment, that can affect the working of all business enterprises.
Nature	Very complex.	Fewer complexes to perceive.
Elements	COSMIC, i.e. Competitors, Organization itself, Suppliers, Market, Intermediaries and Customers.	PESTLE, i.e. Political, Economic, Socio-cultural, Technological, Legal and Environmental.
The task of the marketer	Marketer interacts with, the elements prevailing outside the organization.	The marketer interacts with other functional areas of the organization.
Extent of control	Factors remain beyond the control of marketers.	Factors may be controlled to a large extent by a marketer.

Impact	It creates a huge impact on shaping marketing decisions.	Remains comparatively independent are shaping marketing decisions.
Function	Factors may create an opportunity or pose a threat to the marketing activities of an organization.	Factors reveal the capabilities of an organization to exploit the opportunities or to combat the threat through its marketing activities.
Influence	Directly and Regularly	Indirectly and Distantly

Components of Marketing Environment, or Forces or Factors Affecting Marketing Environment

The components, forces or factors affecting marketing environment can be classified under the following two broad heads:

(I) External Components or Forces or Factors

External components or forces or factors are those which exist in the environment but are uncontrollable. External environmental factors are uncontrollable by individual firms and marketing management. These forces affect the marketing strategies considerably and hence the marketing manager should adjust and adapt to these forces while preparing its marketing plans, policies and strategies. If possible, efforts should also be made to take advantage of these external forces. The major external forces are as follows :

(1) Demographic Factors: Demographic factors include structure of the population, division according to sex, age group, income group, marital status and profession etc. The study of demographic factors is of vital importance for the marketers. It helps to develop an understanding about prospective consumers and market potential of a product and facilitates market segmentation. It provides clues as regards their age, sex, income and capacity to incur expenditure on the satisfaction of their wants. The demographic study provides all the requisite information about consumers which is essential for market segmentation.

(2) Economic Environment: By economic environment we mean the purchasing power along with desire to incur expenditure of the consumers. The effective demand depends on economic environment. It also determines the market potential of a product. Speedy economic development leads to a rapid rise in the level of income and employment and consequently there is increase in the marketing opportunities of different products. In this way, the economic environment affects the marketing environment of a company.

(3) Social and Cultural Environment: Our society is ever changing. According to time new demands are created and old demands are extinguished. It is essential for the marketing management that it should prepare the marketing plans according to the changing needs of the society and thereby satisfy new growing needs.

There are three main aspects of social environment :(1) changes in life style and

social values ;(ii) major social problems, such as anxiety towards growing population, need of safety in different employments, protection to irreplaceable resources, marketing of products etc. Low income groups and in rural sectors etc, (iii) growing consumerism which is the symbol of growing consumer dissatisfaction and their increasing desires. The growing consumerism is the result, of two primary factors, *i.e.*, (a) the increasing educational level of consumers, and (b) scientific and technical progress. The spread of education and progress made in the field of science and technology is responsible for a rapid increase in the expectations of consumers with the result that the consumer now is more aware of his rights and satisfaction.

Social and cultural environment is also responsible for the growing importance of social responsibility of the industry and the consumer-oriented marketing concept. The social and cultural concept of marketing is coexistent with consumer welfare along with public welfare.

(4) *Public Policy Environment or Legal and Political Forces* : Public policy environment is also an uncontrollable factor and affects the marketing environment. Political and legal intervention in the field of marketing and business activities has now become a common factor. Monetary-and fiscal policies, import and export policies and custom duties etc. affect the marketing system of a country. In case of India, price and supply regulation of products like iron, steel, cement and drugs etc. has often been resorted to by the government. The range of government legislation directed at protecting consumer interest and the organisation of the consumer resistance groups has affected the marketing environment considerably, such as Monopoly and Preventive Trade Practices Act. The marketers should keep the public policy in mind while preparing marketing plans, policies and strategies.

(5) *Scientific and Technological Environment* : Scientific and technological environment also affects the marketing environment of a country. For example, there is a considerable change in the living style and the pattern of consumption in India on account of development of scientific and technological environment. There is an absolute change in the living standards of developed and developing countries. The scientific and technological developments have given

(6) *Competition* : The existence of competition in the market is essential for building a strong market particularly in case of a democratic society. In the free market economy, it is not possible to take any marketing decision without evaluating the existence of competition. In such an economy, the marketing management has no control over competitor's activities. However, the marketing manager should study the prevailing competitive conditions in the market. For this purpose, he should take into account bases of competition, competitor's viewpoint towards the consumers, quality and characteristics of competitors' products and their marketing strategies before preparing marketing plan.

(7) *Consumer Demand* : Consumer demand is always changing and hence it is not possible to assess it correctly. Thus it is also an uncontrollable marketing

environment. It affects the overall market environment, Under the modern consumer-oriented marketing concept, the consumer is the centre of all marketing activities. According to *Peter F. Drucker*, "the main object of business is to create customer." Hence the marketing manager must study the needs, preferences and tastes of the consumers and also analyse their effects on the demand of the product vis a vis consumer's needs and thereby produce and market the products accordingly. Every business, in order to survive and grow, must serve the needs of consumers and citizens

(8) Ecology or Nature or Physical Environment : In the modern economics, ecology or nature or physical environment also occupy an important place in the field of distribution and marketing under the concept of intensive marketing. However, it is also an uncontrollable factor of marketing environment. Pollution has now become the topic of the day in the field of high consumption economic system in developed and developing countries. Today the marketer is not only required to satisfy the needs of his customers but also the needs of the society as a whole. Hence his marketing activities should be directed in such a way that it may not harm the interests of the society. In order to maintain balance in the physical environment, it is essential that all types of pollution should be stopped and efficient utilisation of the limited available resources should be done. Proper attention should be paid to the economic and efficient utilisation of the energy and physical resources.

II) Internal Components or Forces or Factors of Marketing Environment:

Internal components or forces or factors of marketing environment are those which are under the control of the marketing manager. He is in the position of making changes in these forces. It also affects the marketing environment. Hence marketers must get adequate information about internal environment. Internal forces or factors of the marketing environment can be classified under the following two broad heads:

(1) Corporate Resources: Corporate resources include man, material, money, management, ideas and information, locating research and development programmes and public image etc. They are the constraints or limitations on the exploitation of marketing opportunities. They affect the marketing environment of a company considerably. Company's marketing opportunities depend on the availability of the corporate resources. There should be happy marriage between the corporate resources and corporate opportunities, so that the company can accomplish the set goals.

(2) Marketing-mix : The policies adopted by manufacturers to attain success in the market constitute the marketing-mix. Under marketing-mix we include mainly product-mix, distribution-mix, communication-mix and service-mix. Marketing-mix is an important part of marketing system of the company and thus *it is a controllable* factor of marketing environment. These controllable factors are the marketing instruments or variables. A company can achieve its marketing objectives by selecting and balancing marketing-mix. Marketing-mix acts as a

stimulus and resulting variables such as consumer satisfaction, market share, return on investment and company image as responses. A successful marketing strategy must have a marketing-mix.

(3) The Market : Organisations closely monitor their customer markets in order to adjust to changing tastes and preferences. A market is people or organisations with wants to satisfy, money to spend, and the willingness to spend it. Each target market has distinct needs, which need to be monitored. It is imperative for an organisation to know their customers, how to reach them and when customers' needs change in order to adjust its marketing efforts accordingly. The market is the focal point for all marketing decisions in an organisation.

Consumer markets are individuals and households that buy goods and services for personal consumption. Business markets buy goods and services for further processing or for use in their production process. Reseller markets buy goods and services in order to resell them at a profit. Government markets are agencies that buy goods and services in order to produce public services or transfer them to those that need them. The federal government is the largest buyer in the United States. International markets consist of buyers in other countries.

(4) The Suppliers: Suppliers are organisations and individuals that provide the resources needed to produce goods and services. They are critical to an organisation's marketing success and an important link in its value delivery system. Marketers must watch supply availability and monitor price trends of key inputs. If there is a breakdown in the link between the organisation and its suppliers, the result will be delays and shortages that can negatively impact the organisation's marketing plans. On the other hand, positive and cooperative relationships between the organisation and its suppliers can lead to enhanced service and customer satisfaction.

(5) Marketing Intermediaries: Like suppliers, marketing intermediaries are an important part of the system used to deliver value to customers. Marketing intermediaries are independent organisations that aid in the flow of products from the marketing organisation to its markets. The intermediaries between an organisation and its markets constitute a channel of distribution. These include middlemen (wholesalers and retailers who buy and resell merchandise). Physical distribution firms help the organisation to stock and move products from their points of origin to their destinations. Warehouses store and protect the goods before they move to the next destination. Marketing service agencies help the organisation target and promote its products and include marketing research firms, advertising agencies, and media firms. Financial intermediaries help finance transactions and insure against risks and include banks, credit unions, and insurance companies.

(6) Marketing Information: External environmental sources provide raw data for marketers to develop into actionable, marketing information. Environmental forces create challenges and opportunities for the organisation. Marketers must react and adapt to changes in their external environment. Globalisation is an example of an opportunity for an organisation. Improving technologies, such as transportation and communications, have enabled companies to expand into global or worldwide markets. Marketers must learn to deal effectively with multiple cultures and political systems in the midst of rapidly changing markets and technology. They must be able to anticipate this

changing environment and develop the competencies at all levels in their organisations to embrace this dynamic future.

Environmental Factors Affecting the Consumer Marketing Decision-making Process

- 1) **Economic Factors:** Economic factors play an important role in consumer buying behavior decisions. It also directly affects the purchasing power of consumers.
If consumer' purchasing power is weak, they cannot decide to buy goods or services even if they like very much.
But, if they have purchasing power, they can take a prompt decision to buy goods or services they like.
Income level, the income of their family members, liquid asset, spending attitude, credit facility, etc. are the economic factors to determine consumers' buying decision.
- 2) **Technological Factors:** Technological factors are perhaps the most dramatic forces which are changing customer habit by introducing a new product for the customer.
- 3) **Cultural Factors:** Culture is crucial when it comes to understanding the needs and behaviours of an individual. Throughout his existence, an individual will be influenced by his family, his friends, his cultural environment or society that will "teach" him values, preferences as well as common behaviours to their own culture and buying behavior.
- 4) **Demographic Factors:** Demography is the study of human populations in terms of size, destiny, location, age, gender, race, occupation and other statistics. This is very important because these factors directly influence consumer decision making.