

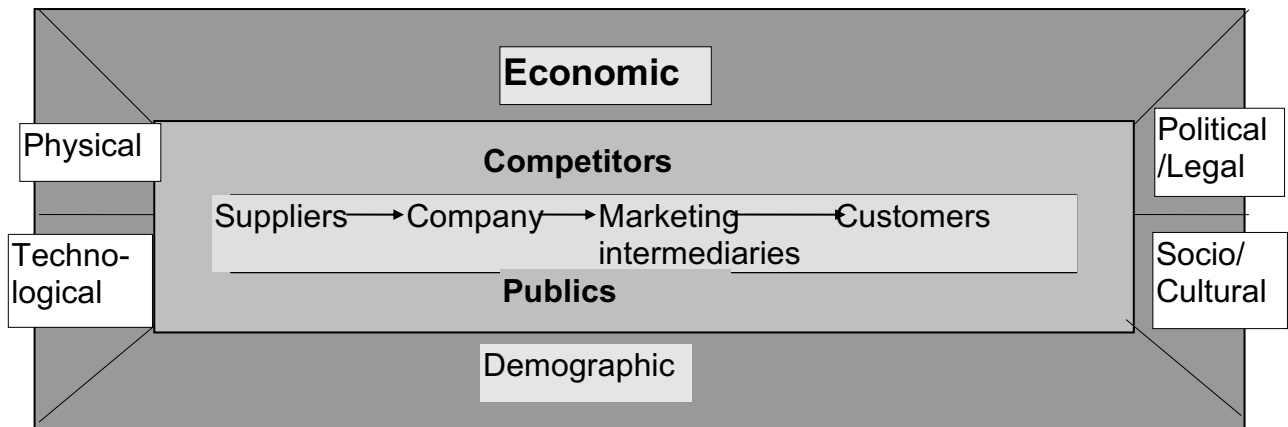
Environmental Analysis

Introduction

Ans.¹ contends that, *“to survive and succeed in industry the company must match the aggressiveness of its operating and strategic behaviours to the tangibility of demands and opportunities in the market place”* The marketing concept “ alerts us to a world of constant change where survival requires studying and responding to what people want and value and quickly adjusting to choices provided by competition, which often come from outside the industry in which it finally occurs “ ². The company’s marketing environment is the ever changing place in which it has to operate and *“is more uncertain the more complex or the more dynamic it is”*³(Duncan 1972). It consists of many parts, all of which are beyond the control of the company’s marketing department. Many firmly held assumptions about every day things has changed, and as a result had a significant effect on market. They include the notions that, *“British Beef is Safe, House prices always rise, A job is for life“*. How a company responds and continually reacts to the market environment in which it operates, does not only significantly effect its business performance but also its survival. Two key drivers of change in the complex marketing environment are accelerating technological change and increased international competition.

Kotler (et al) says, that the marketing environment is viewed by many company’s as an “ uncontrollable force “ and as a consequence, their reaction is to analyse the forces in that environment, and design strategies to help avoid threats and maximise opportunities that the market environment presents.⁴ Other companies try to manage the environment by taking a pro-active approach. Strategies included in this environmental management approach may include, political lobbying, advertising their point of view in the media, and going to litigation against competitors if appropriate. According to the Institute of Marketing “ knowledge of the business environment must precede the acquisition of any degree of control over it”.⁵

The Major Actors & Forces in the Company's Marketing Environment



With so many actors and forces playing an ever-changing role in the company's environment long term strategic planning is, and continues to be a major and an important imperative for the company. Long term strategic planning, *"is more like the navigation of a supertanker than a sailing dingy where decisions to change the course of the former have to be taken up to an hour ahead of any action, whereas one can change the direction of a sailing dinghy instantaneously"*.⁶

In the early 1980's a survey of top European executives was undertaken and they identified eight factors which characterise the environment which they felt management faced management up to the millennium (Baker 1991). The eight factors were:

1. *A demand for quality and advice*
2. *A move towards a service culture*
3. *An emphasis upon the specialist*
4. *Shortening strategic time horizons*
5. *Scenario planning replacing forecasting*
6. *A reduction in head office functions*
7. *A wider international outlook*
8. *Tighter legislation*

As we now approach the millennium, well over a decade after the survey was undertaken it could be seen how these eight factors have increasingly become a reality for many companies. Throughout the 1980's the customers demanded a higher quality from the services and products they purchased, not only did they demand quality, they

also wanted better advice, before and after the sale had taken place. They are required to know what was the product made from? was it environmentally friendly? where was it produced? what produced it?. During this period advice and information about the product or service became as almost as important as the product or service. This demand was supported and fuelled by the explosion of information technology (IT) during the same period. During the past decade the UK manufacturing base has continued to fall from employing 40% of the UK work force in the 1960's to approximately 20% of today's workforce. New employment has come from the expansion of the service industries. Jobs in this sector tend to be more part-time and have been filled by women. With the rapid advancement of IT and vastly improved global communications, more and more companies find it becoming as easy to do business with a customer side of the world, as it is to do business with a customer in the UK. With this wider international outlook that companies have increasingly had to adopt in order to find markets, has come the need for quicker response times and greater flexibility. Product life cycles have become shorter. The need for flexibility within a company to adapt to a less predictable market environment has meant that in order for a company to meet the challenges of these new market realities they have had to become mean and lean in order to compete in both local and international markets. Further it has made companies ask themselves, what are we good at? what are our specialisms? how can we react positively and quickly to customers?.

The changing market environments for businesses has pushed many companies both large and small, across all markets to ask the question what is the company's core business? And after re-affirming what it is, start to focus less on other markets and more on the market environment in which the core business operates. The result has been a trend towards the creation of strategic business units (SBU's) who empowered authority are closer to the customers than a company's head office structure, and therefore are better placed to respond to their needs, and demands more quickly. Re-engineering or downsizing of companies has played an important part in the company moving closer to its customers.

Micro - Macro Environments

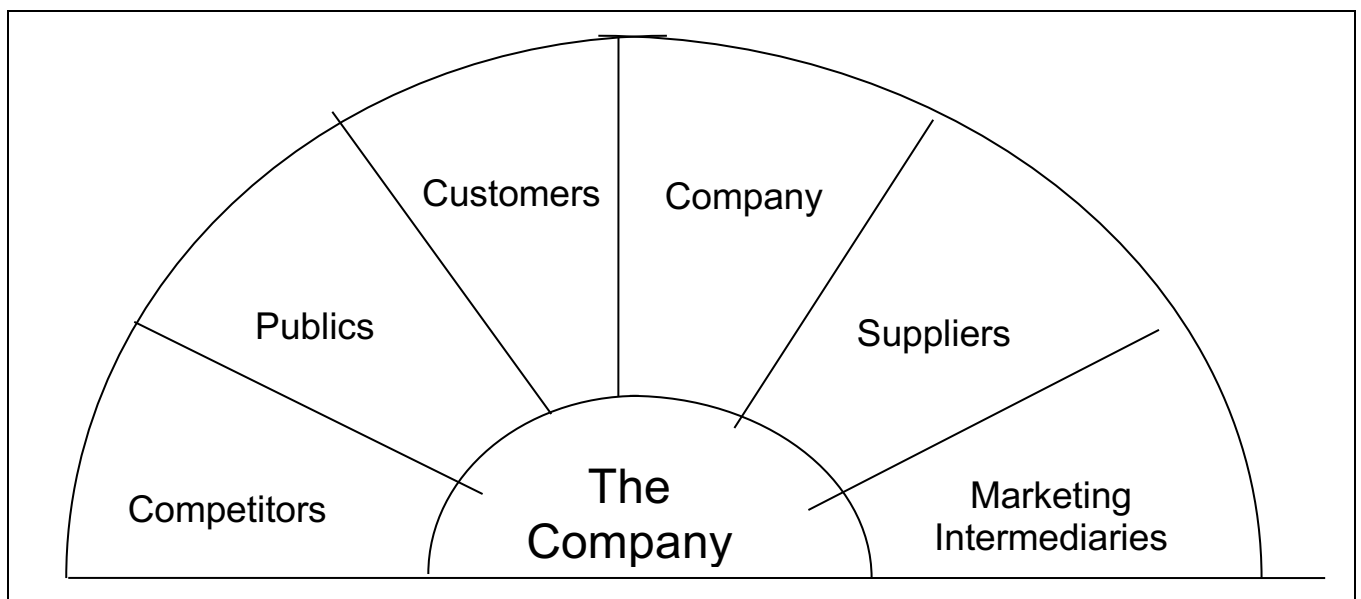
Every company operates under the influences of two types of market environment, the micro and the macro.

The **Micro-environment** consists of a what Kotler calls “actors” who link together to form a chain which he describes as the core marketing system of the company⁷ and the **Macro-environment** which are the “uncontrollable”. These are forces, which operate, in the larger environment, which can shape opportunities and pose threats to companies.

The Micro-environment

The company’s micro-environment consists of several key actors who include;

Major Actors in the Company’s MicroEnvironment



- *Suppliers*
- *Company*
- *Marketing Intermediaries*
- *Customers*
- *Competitors*
- *Publics*

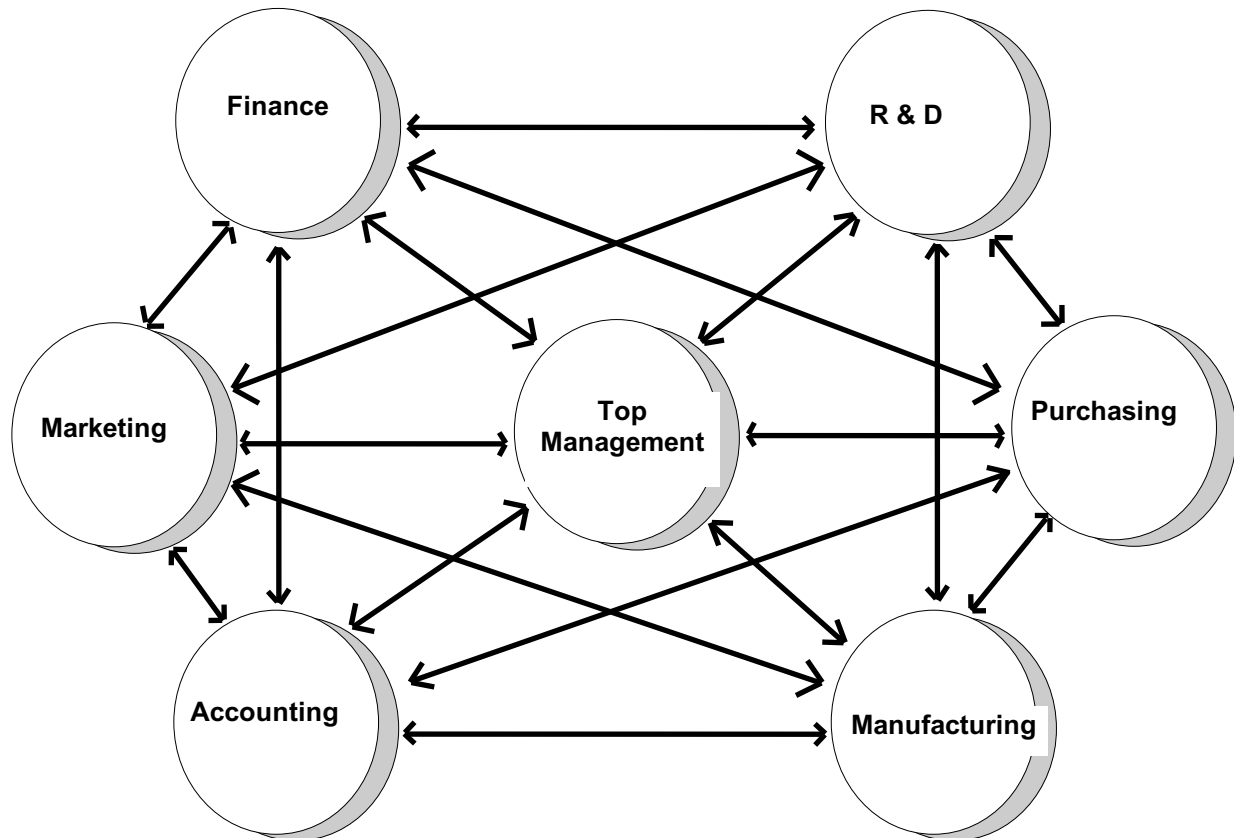
Suppliers

If products are to be manufactured the chain of supply to the company is important. The provide key inputs into the company, quality, delivery and prices are some of the factors which can affect the company's marketing operation. Labour disputes, transportation problems are other areas in which suppliers can cause concern. A company who uses one supplier for component or raw material can run into problems unless they are fully aware of the suppliers own environment and how that may possibly them. Jaguar under the management of John Egan discovered that although its quality control was poor, the majority of the problems were caused by sub-standard components obtained from outside suppliers.

Marketing Intermediaries

Marketing intermediaries are individuals or firms who assist the company to promote, distribute and sell the companies goods to final buyers. These intermediaries include middlemen who find buyers or buy the goods themselves for resale (resellers). Increasingly these middlemen are large businesses who exert great influence in the market. Toys R Us in the UK now completely dominate the toy market. They have a great influence over the price and demand for the goods. Other intermediaries include distribution firms who move the goods, marketing services which undertake Advertising, market research, and customer satisfaction survey etc. Financial intermediaries play a vital role they include credit companies, banks, insurance's, export agencies and the like. It is essential that the company develop a strong relationship with financial intermediaries especially their bankers.

Company



The company environment includes all sections and departments that can impact on the marketing environment. Relationships within companies, inter departmental competition, attitudes of individuals within departments and sub-sections. All can play a role good or bad and need to be analysed.

Customers

They are the prime reason why companies are in business. Kotler identifies five major sets of markets (customers) who buy from a company.

- **Consumer markets:** individuals and household that buy goods and services for personal consumption
- **Industrial markets:** organisations that buy goods and services for further processing or for use in their production process
- **Reseller markets:** organisations that buy goods and services in order to resell them at a profit

- **Government markets:** Government agencies that buy goods and services in order to produce public services or transfer these goods and services to others who need them
- **International markets:** foreign buyers, including consumers producers, resellers and governments

Competitors

Porter⁸ defines competitors as:

“the group of firms producing products that are close substitutes for each other”

During times of economic affluence, or in a newly developing market, sometimes competitors increase their sales and profits because there is an enough business to go around. Even in the most favourable conditions some competitors fail and other succeed. Companies must develop marketing strategies that best position them against their competitors. This means continually developing and adjusting the marketing plan, tracking into account competitors actions and reaction. Their aim is to gain and sustain a strategic competitive advantage by better positioning their goods in the minds of customers, better than their competitors.

According to Hill three levels of competition can be identified

- *direct competition - e.g. a Ford Fiesta or a Renault 5*
- *Indirect competition - not buying a new car but deciding to keep the old one and use a train for long journeys. or changing your mode of transport from a car to a bus*
- *Need Competition - the potential car buyer may choose to buy a family holiday instead.*

Competition for the company can be a good thing, it ensures that it must get and keep close to what the consumer wants and by clustering competitors together in one location e.g. restaurants, that area may become known as the area for consumers to visit if the are looking to eat out. Therefore grouping the restaurants together may have a synergistic effect in attracting diners to the area.

Publics

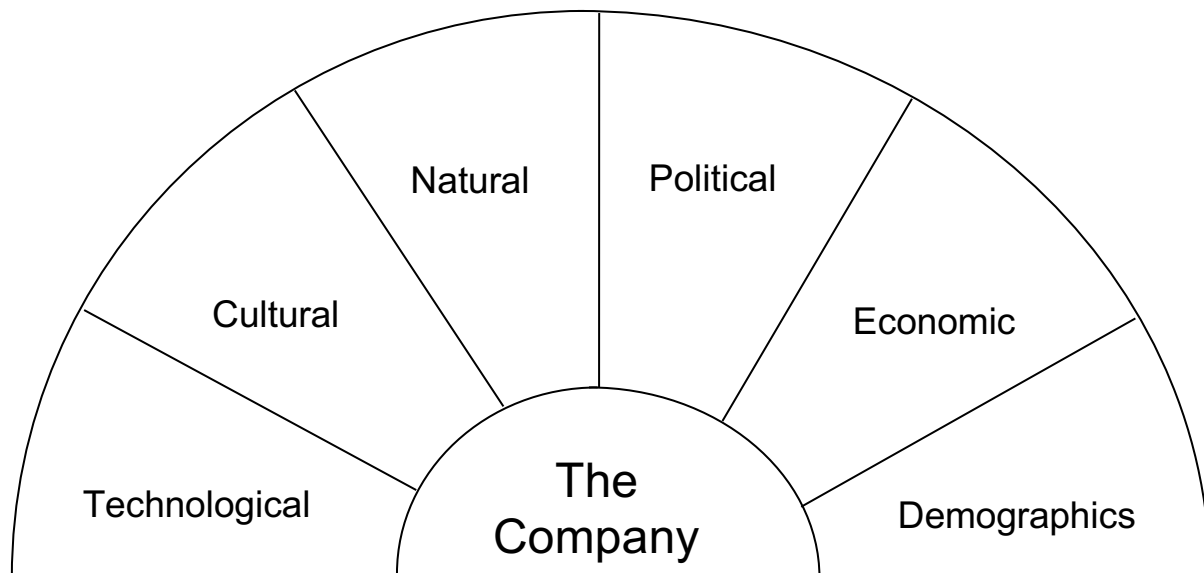
A public is any group that has actual or potential interest in or impact on a company's ability to achieve its objectives. These include:

- **Financial publics** - they influence the company's ability to obtain funds
- **Media publics** - are the newspapers, TV, Magazines, Press releases and conferences
- **Government publics** - takes into account Government thinking and trends
- **Citizen action publics** - environmental, ethnic, cultural, and minority groups
- **Local publics** - community organisations and action groups
- **General publics** - company images, corporate responsibility
- **Internal publics** - what is expedient internally and how that is communicated

THE MACRO-ENVIRONMENT

A company's Macro-environment consists of 6 major forces:

Major Forces in the Company's Macro Environment



The Demographic Environment

Demographics refers to the structural dimensions of the population refers to things as age, sex, family composition, numbers, income distribution, births, deaths occupational characteristics, ethnic and racial trends and many more. Although individual companies have no control over these factors, they are subject to their effects. If there is a baby boom then it is reasonable to predict that the demand for nappies and other baby product would increase. The adult between the age of 18 - 35 largely determine the size of the beer market and the number of new families has an implication for housing and home furnishing markets.

The Economic Environment

The **economic** environment within a country will often be directly influenced by the political attitude of its government. National economies are becoming increasingly

dependent on world economic trends which of course means that those who create the market have to be alert to the economic factors that might influence their business. Economic swings affect marketing activity because they affect purchasing power. During an economic recession purchasing power is limited and patterns of expenditure change. Purchasing power is dependent on current income, prices, savings and credit. It is expedient if not essential that marketers are aware of major trends in consumer income and spending activities. One of the marketer's first step is economic analysis especially if it is the company's intention to operate in foreign markets or has notions of becoming a global player and should therefore establish it's pro capita income. In general a company would expect business opportunities in a country where the per capita income is high. This figure would give an indication of that countries standard of living. A typical Gulf State might have a per capita income of \$20,000 per annum, whereas some African countries would struggle to achieve \$100 per annum. Most western economies have a pro capita income of between \$10,000 and \$20,000. Other economic factors will affect the company's marketing environment. Savings and debt affect consumer spending patterns, as does a country's growth rate and level of inflation.

The Natural Environment

Increasingly the environment, which provides the natural resources that a company may need as inputs, is an increasingly important factor in the company's marketing environment. Even air and water are finite. The earth is being damaged, the rain forests are being destroyed at a dangerous rate and all of these have implications for the markets, both in the short and long term. An example of limited resources is oil. Oil is a finite resource that is being used at an unsustainable rate. This has serious implications not only nations but for the individual companies. Oil is a key natural resource both for a Country and a company. It is burned to provide energy is power stations and in cars, the energy it produces in the form of electricity is used to drive industrial machinery in factories which in turn manufactures the products that company's offer to the market. The race is on to develop alternative sustainable natural resources such as wind and wave power. Development of these two sources of energy will in turn initiate major change in many markets, and create new markets. Governments, globally are passing legislation to protect our natural environment and striving to ensure that individuals along

with all types and sizes of organisations are aware of and made accountable for their actions with regards to protecting the natural environment.

Technological Environment.

The rapid advancement of **technology** has changed most aspects of our lives.

Kotter says that the economic growth rate is affected by how many major new technologies are discovered. Changes and development of technology tends to be through about by minor improvements rather than major discoveries. Any organisation that does not keep up with relevant technological advancements is doomed to failure⁹. Scheuing in the mid 70's recognised the rapid rate of changes in the technological environment, saying that "80% of today's products will have disappeared from the market place 10 years from now, while an estimated 80% of the products which will be sold in the next decade are as yet unknown"¹⁰. His prediction has become a reality. New markets have been created as a result of technological advancements, some examples include :- the home computer, Internet, mobile phones etc. Technology represents both an opportunities, as a source of new and better products, and a threat by competitors developing and increasing their share of the market. High R & D (research & development) budgets are becoming increasingly common place in companies in order for them to be technologically ahead of their competitors as well as striving to be first to maximise any new market opportunity a new technological development might bring.

Political environment.

The basic "operating" conditions and business climate in every country are determined by its **political** systems. Governments make and enforce laws, which have a significant affect on the business environment, which in turn has a bearing on a company's marketing strategy. Kotter suggests that the laws and regulations be made to address 3 main purposes.

- 1 To protect competition and individual companies. Thus enabling companies to compete freely on a "level" playing field and to prevent monopolies and unfair competition.

- 2 *To protect customers, the purchasers of goods and services from companies that make bogus claims about their products or services, and to ensure standards across a range of issues.*
- 3 *To protect society at large from certain business_ practice, ensuring standards across a wide range of areas , e.g. Industrial pollution, employment practices , Sunday trading.*

Different governments have different attitudes towards profit making activities. Some communist political systems may look less favourably to Western profit motives. The legislation that governments make can create or hinder the market environment in which a company operates. The conservative government of the past 17 years has created a more favourable business environment through legislation by reducing government controls, lower corporate and personal tax and providing financial assistance with consultancy and training. Governments of other countries have been accused of protectionism by restricting imports such as foreign cars into Japan.

Cultural Environment

Culture is defines by Kotler as the society people grow up in which helps to shape their values, beliefs and norms. These values and beliefs tend to be firmly held and often life long. They will effect how individuals and society views, itself, other countries, business, the natural environment. Values and beliefs generally change slowly with time. These changes have an impact on company's and government alike. They do however according to Naibitt, who with a team of others monitor and record trends form a pattern. He calls these trends "Megatrends" which in themselves demonstrate changing vales and cultural beliefs of society. These trends help to paint a picture of the cultural environment that a company has to operate within.¹¹

Kanter has concluded that the leading competitive nations have different priorities for achieving competitive success. and that these differences stem from national cultures. Her research indicated the following priorities¹²:

Japan

1. Product development
2. Management
3. Product Quality

USA

1. Customer Service
2. Product Quality
3. Technology

Germany

1. Workforce skills
2. Problem solving
3. Management

¹ Ansoff, H.I. (1987) *Corporate Strategy*, Prentice Hall

² Levitt, T. (1983) *The Marketing Imagination*, Free Press

³ Duncann, R. (1972) Characteristics of organisational environments and perceived environmental uncertainty, *Administrative Science Quarterly* pp 313-27

⁴ Kotler, P. Armstrong, G. (1994) *Principles of Marketing*, Prentice & Hall

⁵ Baker, M.J. (1987) *The Marketing Book*, Heinemann London

⁶ Baker, M.J. (1991) *Marketing an Introductory Text*. Macmillan London

⁷ Kotler, P (1994) *Marketing Management: Analysis, Planning, Implementation & Control*, Prentice & Hall

⁸ Porter. M (1985) *Competitive Advantage*) Free Press

⁹ Hill, N. (1994) *Marketing*, Business Education Publishers, Sunderland

¹⁰ Scheuing, E.E, (1974) *New Product Development*, The Dryden Press. Hinsdale, IL.

¹¹ Naisbiit, N. (1982) *Megatrends:Ten New Directions*. Warner Books. New York.

¹² Kanter, R. M. (1991) *Transcending business boundaries: 12000 world managers view change*, Harvard Business Review May - June