Environments That Affect Marketing Management

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ABSTRACT

The marketing environment is in continual flux, spinning off new opportunities and new threats. Instead of changing in a slow and predictable way, the environment is capable of causing major surprises and shocks.

The key to an organisation’s success is its ability to spot and adapt to change in the marketing environment. Every company needs to establish an environmental monitoring system that continually tracks the changing environment. A major company such as General Electric employs over one hundred professionals to monitor the marketing environment. Smaller companies have to settle for simply being alert and occasionally using outside consultants to assess their marketing environment objectively.

Key words: macro-environment, cultural and social environment, political and legal environment, economic environment, consumer expectations, inflation.

INTRODUCTION

The focus in this article is on the macro-environment which is the totality of major institutions and forces that are external and potentially relevant to the firms. The macro-environment can be factored into five major components: cultural and social environment, political and legal environment, economic environment, competitive environment and resources and objectives of firms. We will examine the current trends occurring in each component of the macro-environment and consider the implications for company marketing strategies.

CULTURAL AND SOCIAL ENVIRONMENT

The cultural and social environment is beyond the control of the marketing manager – in the short run, at least. It is concerned with how and why people live and behave as they do. There are many changing dimensions in this variable and the speed and directions of change are difficult to predict. But this variable is still extremely important because it has a direct impact on customer’s thinking – buying behaviour.

Cultural differences are also exhibited in different regions and within urban areas. Take eating habits, for example, Biscuits and hushpuppies are more popular in the South, and Mexican food has long been favoured in the Southwest.

Within large cities, we still find ethnic and religious groups that represent separate markets for some goods and services. Large metropolitan areas often have distinct neighbourhoods. Some urban areas have newspapers, radio stations, restaurants, grocery stores and record shops which cater specifically for these culturally defined markets.
The last decade has seen much discussion about women’s roles in our culture. Some of this has generated more heat than understanding, but it is clear that a shift in thinking is taking place. Women are now freer to seek any kind of job they want, and many more. This greater financial freedom in turn is making many women less dependent on marriage as a career and source of financial security. So, more women are not marrying at all or marrying later. And the number of children they plan to have is declining. This is having a marked impact on manufacturers of housing, baby foods, convenience foods, clothing and cosmetics among others.

It is no longer socially acceptable or sensible to think of women as docile “chattel” of men. Increasingly, they are playing equal roles in society. And it is likely that this change in thinking will continue to affect, not only younger women who were the leaders in the women’s liberation movement, but all women.

It is clear that this is a major shift in thinking which must be considered in marketing strategy planning and implementation. It will affect not only what is offered to consumers, but also how and by whom. We will see many more women in executive positions as well as in responsible selling and advertising jobs. Ineffective and untrained as in males, are for some real shocks as more women get business training and go out to compete as equals, taking jobs which once might have gone to less able males. This is happening already.

We also must take into account cultural attitude toward life and work, which are a reflection of religious, ethical and moral values. It is evident that national attitudes have an effect on a country’s rate of growth and the direction of its development.

Culture tends to encourage the belief, that hard work leads to achievement and material rewards, but other societies seem less concerned about what they feel are materialistic values. People are willing to work, and also expect rewards and material comforts. This has led our economy into a pre-occupation with growth and producing and distributing goods and services. Much of our analysis of the market will be within this cultural framework.

In some other countries, on the other hand, greater stress is placed on the leisure and the enjoyment of life. More holidays are built into the working year. The output of such economies may not be quite as high as it could be, but the people may not feel that they are suffering because of this lower physical output.

POLITICAL ENVIRONMENT:

The attitudes and reactions of people, social critics and governments are becoming increasingly important to the marketing manager, because they all affect the political environment. In our discussion, we will separate political and legal questions, although in practice this separation is hard to maintain. A change in the political environment often leads to changes in the legal environment or the administration of existing laws.

It should not be forgotten that business’s role is to satisfy consumers and no firm has a “God-given right” to operate any way it sees fit. This means that the marketing manager, as well as top management, should give more serious consideration to consumer attitudes in marketing planning. The alternative could be pretty drastic from a macro-point of view, the rules governing business could change.

From a micro-point of view, it could be drastic also. Specific businesses might be told that they could not operate, or they might face such heavy fines that they would be forced out of business. And, in ‘anti-business’ environment fines could be quite large.
A Chikaza family was awarded $450,000 when it was decided that the “Ford Bronco” was an inherently dangerous vehicle which was, in part, the cause of a fatal accident. Such an award/verdict against a small company could wipe it out. For a larger company, however, it opens the door to additional suits which could be costly and exceedingly damaging to its reputation. Clearly, more attention must be paid to product design and safety in our social and political environment. The old production-oriented ways of doing things are no longer acceptable.

Strong sentiments of nationalism may also affect the work of some marketing managers. These feelings can inhibit sales or even block marketing activity in some international markets. Oil and copper mining firms have felt such pressures in recent years, for example, in Latin America, Africa and the Middle East.

To whom the forms could sell and how much, have been dictated by national interests. The Arab boycott of firms doing business with Israel is probably the outstanding example in recent years. But the ‘Buy American’ policy in many government contracts reflects similar attitudes in the United States. And there seems to be growing support for protecting U.S. producers from foreign competition, especially of colour TVs, footwear and textiles. Similarly, Philippine business executives have tried to drive “excessively aggressive” Chinese merchants out of the Philippines.

MULTINATIONAL FIRMS MAY BE AFFECTED

Corporation that routinely operate in several countries have grown in size and importance in the last few decades. But growing nationalistic sentiments have been and must be more seriously considered by such firms in the future. Many countries have national requirements, so the firms have no choice but to employ nationals, use locally produced parts, and so on. Their occasional disregard for feelings in individual countries has now given way to serious efforts to understand the people and the politicians within each particular country.

The political environment is not always a negative variable. Governments may decide that encouraging business and opening markets are constructive steps for their people. Japan recently opened its market more often to foreign investors and competitors. The United States and other highly developed countries may give industrial development a boost in Latin America, Africa and Asia by allowing manufactured goods from those areas to be imported at lower duty rates.

Within the United States, special programmes and financial inducements encourage urban re-development and training of the hard-core unemployed and minority enterprise. State and local governments also try to attract and hold business, sometimes with tax incentives.

Some business executives have become very successful by studying the political environment and developing strategies which use these political opportunities.

LEGAL ENVIRONMENT

Zimbabwean economic and legislative thinking has perhaps to a lesser extent than is usual, claimed to be based on the assumption that competition among many small firms will guide the economy with an ‘invisible hand’. This idea became popular after the publication of Adam Smith’s Wealth of Nations in 1776. Great Britain accepted this idea during the 1800s in principle at least, and it was enshrined in common law there and in the United States. According
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to this concept, attempts to restrain or limit trade were held to be against the public interest and unenforceable. Practices tending to fix prices, limit markets or in any other way control trade were considered undesirable.

This laissez-faire approach did not last long in Great Britain. But Americans have been especially reluctant to give up Adam Smith’s free enterprise ideal. After the Civil War in the U.S.A. however, industries began to grow larger and some were consolidated into trusts, cartels and monopolies by wealthy tycoons. This led to a restraint of competition and hardships for smaller producers and consumers. As a result, there was a movement – especially among Midwestern farmers – to curb monopolists.

Beginning in 1890, a series of laws were passed that were basically anti-monopoly or pro-competition.

There is more to the legal environment than just the anti-monopoly laws. Some consumer protections were built into the English and U.S. common law system. A seller had to tell the truth (if asked a direct question), to fulfill contracts and stand behind the firm’s product (to some reasonable extent). But beyond this, it was expected that vigorous competition in the market place would protect consumers, so long as they were wary. Within this framework, the pro-competition thrust of the anti-trust laws is understandable.

Focusing only on competition did not protect consumers very well in some areas, however. Some dishonest or production-oriented businesses and their ‘letter of law’ advisors found ways of cutting corners or staying just barely within the law. So the government has found it necessary to pass other laws, usually involving specific types of products.

Straight forward consumer protection laws in the U.S. go back as far as 1906, when the Pure Food and Drug Act was passed. Colourful exposure of unsanitary meat – packaging practices in the Chicago stockyards, fanned consumer interest in this act. After such debate it was decided to pass a general law to prohibit the adulteration and misbranding of foods and drugs in interstate commerce. This was a major breakthrough with respect to consumer protection because prior to this law it was presumed that common law and the philosophy ‘let the buyer beware’ would take care of consumers. Some loop holes in the law were corrected in subsequent acts, and the law now prohibits the shipment of unsanitary and poisonous products and requires extensive testing of drugs. The Food and Drugs Act (1906) – FDA, attempted to police manufacturers of these products and had the power to confiscate products that violate its regulations.

It has also drawn up regulations on branding and requires that food shipped in interstate commerce contains labels which correctly describe the ingredients. In general, it has done a good job policing this area, but the outcry over a recent proposal to completely ban the use of saccharin may force the government to decide how much protection consumers really want. In this case, there were many users who felt that the FDA should first prohibit the use of many other products whose detrimental influences had already been more thoroughly proved, for example alcohol and cigarettes. Clearly, more thinking was needed in this area.

Traditional thinking about buyer-seller relations has been “let the buyer beware”, but it seems to be shifting to “let the seller beware”. The interpretations suggest that the emphasis now is on protecting consumers directly rather than indirectly by protecting competition. Production – oriented businesses may find this frustrating, but they will just have to adapt to the new political and legal environment.
ECONOMIC ENVIRONMENT

A well-planned marketing strategy may fail if the country goes through a depression of rapid business decline. As consumers’ incomes go down, people have to shift their expenditure patterns, perhaps completely eliminating some types of purchases. During the U.S. recession of 1969-70, for example, some firms offering luxury goods were badly hurt, while those offering lower-priced goods did very well. Some retailers had sales gains, as did sellers of used cars, camping equipment and material for making one’s own clothes. In contrast the gloom in the lumber and home – building industry was severe.

The recession of 1973 – 74 hit harder, however. This time the oil – related lay offs reduced personal incomes even more and weakened producers and retailer of lower-priced goods. Finally, the largest retail bankruptcy in U.S. history was announced by the W.T. Grant chain in 1976. And the Robert Hall Chain selling lower-priced clothing went bankrupt in 1977. Other firms had to retrench, cut product lines or change strategies to avoid similar fates.

The growing shortage of some natural resources, and in particular energy resources, may cause upsets. In the petrochemical industry, for example, some plastic manufacturers find their costs rising so high that they are priced out of the market. And rising gasoline prices may cause consumers to be less interested in larger, more profitable auto-industry cars. Further, important shifts in auto-buying patterns will have a ripple effect throughout the economy because the automobile industry is a major buyer of metals, plastics, fabrics and tyres.

Resource-related dislocations may be even greater in resource-poor countries, such as Japan which are almost wholly dependant on others for raw materials, including energy sources.

At the higher energy prices, some Zimbabwean consumers and industries will have to adjust their spending patterns and production methods. In the U.S. for example, already the prices of large used cars have dropped as buyers try to avoid higher gas prices. This will probably lead to an even more rapid shift toward small American and foreign cars, which will reduce sales of suppliers to the automotive industry.

Inflation is disruptive in many economies, and the marketing managers have a big job keeping up with it, especially with respect to pricing. In South America, inflation has become almost a way of life, and it’s a fairly big problem in the United States. Latin American countries have experienced far more spectacular inflation, and it had profoundly influenced their economic thinking. Most people there now assume that prices will always go up, and they buy and sell accordingly. This behaviour, of course, adds fuel to the inflationary fires. Some Latin countries have had from 25 to 100 percent inflation per year for many years. In contrast, the 6 to 10 percent level reached in the late 1960s and the 1970s in the United States was small. Nevertheless, this U.S. rate properly caused great anxiety about whether inflation was out of control and led to restrictive monetary policies which did reduce income, employment and consumer spending. Zimbabwe has so far experienced higher inflation rates in the 2007-2009.

Obviously, the marketing manager has a big stake in the economic environment. In contrast to the legal and cultural environments, economic conditions change continuously. And they can move rapidly up or down, requiring tactical and even strategic responses. Underlying any economic environment is the technological base which affects the way the resources of the economy are converted to output. In tradition-bound societies, relatively little technology may be used and the output may be correspondingly small. In modern economies, on the other hand,
aggressive competitors tend to copy the best methods quickly and continually seek better ways of doing things.

Spectacular advances in technology were made in the last 30 years, especially by the most developed countries of the world. This was due in part to our new-found interest in and support of research and development. More technological developments probably can be expected, although not as many from the United States.

U.S. support for R & D has been cut back in recent years as it seemed less reproductive and as fighting recessions, inflation and energy crises took centre stage. Some of these developments certainly will affect marketing, just as previous ones have had their impact. The modern automobile, for example, has enabled farmers to come to town and urban people to go wherever they want, thereby destroying the local ‘monopolies’ of some retailers and wholesalers. Modern trucks and airplanes have opened up many markets and permitted production for national or international markets, with resulting competition and benefits for consumers. Electronic developments have permitted mass promotion via radio, TV and telephone, thereby reducing the relative importance of other media. And in time, we may be able to shop in the home with a combination TV – computer system, eliminating the need for some retailers and wholesalers.

THE COMPETITIVE ENVIRONMENT

The competitive environment refers to competition that is, the number and types of competitors. The marketing manager must face in various market segments, how rough their competition is and the marketing strategies they use. Although these factors are often uncontrollable, the marketing manager may have some discretion, sometimes he can choose strategies that will avoid head-on competition.

By correctly understanding the nature of the competitive environment, the manager’s chances may be improved. He should expect many competitors and probably price competition in an industry composed of many small producers and retailers. This is the case, for example, in the boating industry in the U.S. where hundreds of boat builders and thousands of engine and accessory manufacturers try to sell their products through more than 1.700 marine dealers and 3.500 marines. Competitive strategies in this industry are very different from those in the aluminium or computer industries where there are relatively few competitors.

A greater depth of understanding of the nature of competition is obtained by identifying from kinds of market situations. We will emphasize three kinds, pure competition, oligopoly and monopolistic competition. A fourth type, monopoly is encountered so infrequently that it will not be treated separately. Usually monopolies are controlled by local or state. Where they are not, they can be treated as monopolistic competition, since monopolies are simply an extreme case of monopolistic competition.

Pure competition develops in markets characterized by many buyers and many sellers offering very similar or homogenous products. It is assumed here that all buyers and sellers have full knowledge of the market forces and that there is ease of entry for buyers and sellers – that is, new firms have little difficulty starting up business. New customers can easily come into the market. This is more or less true in many agricultural markets. In our tobacco or potato industries for example, there are tens of thousands of producers and they are in pure competition. Let’s look more deeply at what it means to these small producers.
In pure competition, these many small products see almost a perfectly flat demand curve facing each one of them. Although the potato industry as whole has a down-sloping demand curve, each individual potato producer has a demand curve that is perfectly flat at the going market – price – the equilibrium price as shown in Figure 1 and Figure 2.

Industries tend to become more competitive – that is, move toward pure competition (except in oligopolies – see below). More competitors enter the market, the supply is increased and the current equilibrium price is pushed downward. This tends to force profits down until some competitors are eliminated. Economists describe the final equilibrium position as that point at which there are no entrepreneurial profits, only sufficient return to keep the present competitors in the business.

On the way to this final equilibrium position, competition may become so vigorous that companies may actually lose money as the price goes below the equilibrium level and some firms are driven out of the market. It may take some time, moreover, before the industry price moves up to the equilibrium level so that the remaining companies can survive. At the economist’s final equilibrium point, however, none of the firms makes a profit! Each just covers all its costs.

Not all industries or markets move toward pure competition. Some become oligopolies. Oligopoly situations are special market situations which develop when a market has:

1. essentially homogenous products, such as basic industrial chemicals or gasoline;
2. relatively few sellers, or a few large firms and perhaps many smaller ones who follow the lead of the larger ones;
3. Fairly inelastic industry demand.

The demand curve for each firm is particularly interesting in an oligopoly situation. Although the industry demand curve can be inelastic throughout the relevant range, the demand curve facing each individual oligopolistic competitor loses as shown in Figure 4-6. The current market price is at the kick.

There is a ‘market price’, as in pure competition because the competing firms must watch each other carefully. Each marketing manager must expect that raising his own price above the market for such a homogenous product would cause a substantial loss of sales. His demand curve would be relatively flat above the market price since few, if any, competitors would follow his price increase. But if he lowers his price, he must expect competitors to follow. Therefore given inelastic industry demand, his own demand curve would be inelastic at lower prices. Since lowering prices along such a curve is clearly an unprofitable move, he probably should not do so. That is, he should leave his price at the kick – the market place.

Actually, however, there are price fluctuations (in particular, price out) in oligopolistic markets. Sometimes this is due to ‘over-eager’ firms who do not understand the market situation. The other cases, substantial increase in demand or supply will change the basic nature of the situation and lead to price cutting. Sometimes the price cuts are drastic, such as Du Pont’s Dacron price cut of 25 percent on one occasion. This was caused in part, by production capacity that already exceeded demand and because more was scheduled to come into production.

PRICE WARS:

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A common example of price fluctuations can be seen on retail gasoline marketing at a major city intersection or along a busy highway where there are several obvious competitors. Apparently enough final consumers think of gasoline as homogenous to create oligopoly conditions, and oligopoly – type (price wars’) are common. These usually start when some gasoline discounter successfully attracts too much business, perhaps by cutting prices one cent a gallon below his usual price. The war proceeds for a time, until one of the dealers calls a meeting and suggest that they all ‘get a little sense’.

As in pure competition, oligopolists face a long run trend toward an equilibrium level where profits are driven toward zero. Along the way, a marketing manager might try to avoid price competition relying more on other elements in the marketing mix. This is extremely difficult however, because if all of the potential customers view the products as essentially similar, how can a firm obtain some differential advantage.

CONCLUSION

From the above discussion, it is easy to see why firms would want to avoid pure-competition or oligopolistic situations. Clearly a market in which they have more control would be preferable. Those who plan and manage products operate within a complex rapidly changing marketing macro-environment which the firm must continuously monitor, if it is to survive and prosper. The macro-environment consists of the totality of major institutions and forces that are external and potentially relevant to the firm. The macro-environment can be factored into five components: the cultural and social environment, political and legal environment economic environment and resources and objectives of firms.
REFERENCES


Environments that affects marketing management
Interaction of demand and supply in the potato industry and the resulting demand curve facing individual potato producers

Figure 1

![Graph showing the demand curve for the potato industry.]

Figure 2

![Graph showing the demand curve for an individual potato producer.]

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