

Chapter 3 – analyzing the marketing environment

The company's microenvironment

Marketing management's job is to build relationships with customers by creating customer value and satisfaction. Marketing success will require building relationships with other company departments, suppliers, marketing intermediaries, competitors, various publics and customers which combine to make up the company's value delivery network.

- **The company**

In designing marketing plans, marketing management takes other company groups into account – top management, finance, research and development, purchasing, operations and accounting. All of these interrelated groups form the internal environment.

Marketing managers must work closely with other company's departments as they all have an impact on the marketing department's plans and actions. Under the marketing concept all of these functions must 'think consumer'

- **Suppliers**

Provide the resources needed by the company to produce its goods and services. Supplier problems can seriously affect marketing. Supply shortages or delays, labour strikes and other events can cost sales in the short term and damage customer satisfaction in the long run. Rising supply costs may force price increases that can harm the company's sales volume.

Strong supplier relationships contribute significantly to business performance, and when businesses focus on the whole supply chain (suppliers and customers) they do even better.

- **Marketing intermediaries**

Businesses that help the company to promote, sell and distribute its products to final buyers, include: resellers, physical distribution firms, marketing services agencies and financial intermediaries.

Resellers: distribution channel firms that help the company find customers or make sales to them including wholesalers and retailers.

Physical distribution firms: help the company to stock and move goods from their points of origin to their destination.

Marketing services agencies: marketing research firms, advertising agencies, media firms and marketing consulting firms that help the company target and promote its products to the right markets.

Financial intermediaries: banks, credit companies, insurance companies and other businesses that help finance transactions or insure against the risks associated with buying and selling of goods.

Work with intermediaries as partners not merely as channels that through them they sell their products.

- **Competitors**

Marketers must do more than simply adapt to needs of target consumers. They also must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

- **Publics**

A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its objectives. 7 types of publics:

- **Financial publics:** This group influences the company's ability to obtain funds. Banks, investment houses and shareholders.
- **Media publics:** This group carries news, features and editorial opinion – newspaper, magazine and radio & TV.
- **Government publics:** Management must take government developments into account. Must often consult the company's lawyers on issues of product safety, truth in advertising and other matters.
- **Citizen action publics:** Marketing decisions may be questioned by consumer organisations, environmental groups, minority groups and others. Its PR department can help it stay in touch with consumer and citizen groups.
- **Local publics:** Local residents and community organisations. Large companies appoint a community relations officer to deal with the community, attend meetings, answer questions and contribute to worthwhile causes.
- **General public:** The public's image of the company can affect buying.
- **Internal publics:** Managers, workers, volunteers and the board of directors. Large companies use newsletters to inform and motivate their internal public. When employees feel good about their company this positive attitude spills over to the external public.

- **Customers**

Most important actors in the company's microenvironment. The aim of the entire value delivery system is to serve target consumers and create strong relationships with them. 5 types of customer markets:

- **Consumer markets:** 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 to resell at a profit
- **Government markets:** made up of government agencies that buy goods and services to produce public services or transfer the goods and services to others who need them
- **International markets:** consist of these buyers in other countries including consumers, producers, resellers and governments.

The company's macro environment

6 main forces in the company's macroenvironment:

Demographic environment

Demography is the study of human populations: size, density, location, age, gender, race & occupation.

Major interest to marketers because it involves people, and people make up markets. The world's large and highly diverse population poses both opportunities and challenges.

Changes in the world demographic environment have major implications for business i.e. China – 1 baby per family policy resulted in the child being spoilt – 40% of parent income was spent on child – indulgent purchases

Changing age structure of the population

3 largest groups: baby boomers, gen X and the Millennials

Baby boomers: Post WW11 baby boom. Wealthiest cohort. The recession hit them hard – the financial services industry targets them as they need money management help.

Nearly 90% of boomers access Internet once a month, looking at managing money – MLC was ahead of the pack by creating clear website navigation, a retirement calculator and a good overall presentation, making it easier for baby boomer customers to access the info and services they need.

Generation X

Baby boom was followed by a 'birth dearth' – increased parental divorce rates, higher employment for mothers, first generation of latchkey kids (no stay at home parent). Most educated generation, hefty annual purchasing.

The new Kluger was developed with easy-to-use features designed to appeal to families. The marketing campaign used a heavy internet focus aimed to get the skeptical Gen X target market in to test drive.

Millennials

Also known as generation Y. Utter fluency and comfort with digital technology.

1st generation to grow up in a world filled with computers, mobile phones, satellite TV, iPods and online social networks.

Prefer to seek out information and engage in 2 way brand conversations. Thus, reaching these message saturated consumers effectively requires creative marketing approaches.

Generation marketing

Some experts warn that marketers need to be careful about turning off one generation every time they craft a product or message that appeals effectively to another. Others caution that each generation spans decades of time and many socio-economic levels.

Marketers therefore need to form more precise age specific segments within each group. Defining people by their birth date may be less effective than segmenting them by their lifestyle, life stage, or the common values they seek in the products they buy.

The changing family

Increase in the number of families with no children (living at home). This big shift is partly due to the ageing population, but also to the fact that some couples are choosing not to have children. More people are divorcing, choosing not to marry, marrying later or marrying with no children. Marketers must increasingly

consider the special needs of non traditional households as each group have distinctive needs and buying habits.

The number of working women has increased, in many families both parents are working full-time, more children attend childcare. Increased consumption of career-orientated women's clothing, financial services and convenience foods and services. Buzz Insurance is clearly aimed 30-40 – aims to build insurance to suit the busy lifestyles of the customers.

Geographic shifts in population

Great migratory movements between and within countries, 1/3 of all Aus residents move every 5 years. Such population shifts interest marketers because people in different regions buy differently. E.g. Consumers in North Aus more likely to buy air-con and swimming pools.

- Moving from rural to metropolitan areas – faster pace of living, more commuting, higher income, greater variety of goods and services.
- Australian's in the suburbs more casual, outdoor living and greater neighbourhood interaction: lower income.
- Shift in where they work: many now telecommute from home. Marketers target telecommuters e.g. WebEx, the web conferencing division of Cisco – overcomes isolation of telecommuting

A better-educated, more white collar, more professional population

Individuals who achieve higher educational outcomes are better off in a number of ways: their lifestyles are different – they earn more. The rising number of educated people will increase the demand for quality products, books, magazines, travel, personal computers and internet services.

Increasing diversity

Countries vary in their ethnic and racial makeup. Each national group has specific wants and different buying habits. Many marketers of food, clothing, furniture and other products have targeted specifically designed products and promotions to one or more of these groups.

Many companies have recently begun targeting gay and lesbian consumers with gay-specific marketing efforts.

Also targeting people with disabilities, as they are active consumers. i.e.

McDonalds has featured disabled people in their mainstream advertising.

Economic environment

Economic environment consists of factors that affect consumer purchasing power and spending patterns. Nations vary greatly on their levels of income i.e. Only India's elite can afford a car.

Main economic trends:

Changes in income and spending

General consumer spending patterns have changed – people are saving money where they can by cutting expensive items from their shopping lists & reducing their total spending.

- *Value marketing* has become popular – instead of offering high quality at a high price or low quality at low price marketers in all industries are

looking for ways to offer today's more financially cautious buyers greater value – consumers require a reason to spend.

Changing consumer spending patterns

Consumers at different levels have different spending patterns. Ernst Engel found that as family income rose percentage spent on food declines, percentage spent on housing remains constant and both the percentage spent on most other categories and that devoted to savings increase.

Changes in major economic variables such as income, cost of living, interest rates and saving and borrowing patterns have a large impact on the marketplace.

Companies watch these variables by using economic forecasting.

• Natural environment

The natural environment involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. Environmental concerns have grown steadily during the past 3 decades. Marketers must be aware of several trends in the natural environment:

- *Shortages of raw materials* – air pollution, water shortages. Renewable resources such as forests and food also have to be used wisely. Non-renewable resources such as oil, coal and various minerals pose a serious problem. Firms making products that require these scarce resources face large cost increases, even if the materials remain available.
- *Increased pollution* - industry almost always damages the quality of the natural environment – disposal of chemical waste & nuclear waste, mercury levels in the waste, chemical pollutants in the soil and food supply and littering of the environment
- *Increased government intervention* – the governments of different countries vary in their concern and effort to promote a clean environment. The general hope is that companies around the world will accept social responsibility. The general focus is to protect the environment by enforcing environmental laws, conducting environmental impact assessments and maintaining emissions trading schemes.

• Technological environment

Forces that create new technologies, creating new products and market opportunities. I.e. Qantas is giving its frequent flyers new bag tags each with a RFID chip that allows premium customers to drop their bags on an automated drop with no queues and no delays.

- Every new technology replaces an old technology
- Marketers should watch the technological environment closely

• Political and social environment

Consists of laws, government agencies and pressure groups that influence or limit various organisations and individuals in a given way.

Legislation regulating business

Well-conceived regulation can encourage competition and ensure fair markers for goods and services. Thus, governments develop public policy to guide commerce (laws and regulations that limit business for the good of society as a whole)

Increasing regulation

Many laws covering issues such as competition, fair trade practices, environmental protection, product safety, truth in advertising, consumer privacy, packaging and labeling and pricing. Marketers must work hard to keep up with changes in regulations and their interpretations. Business legislation has been enacted for a number of reasons.

- *Protect companies from each other* – laws are passed to define unfair competition and prevent it.
 - *Protect consumers from unfair business practices*
 - *Protect the interests of society* against unrestrained business behaviour.
- There are social costs of production or products.

Changing government agency enforcement

Agencies set up to enforce trade policies and regulations – Food Standards Australia is set up by NZ and AUS to ensure safe food supply. Sets standards in food production, processing and labeling.

Marketers need to know the main laws protecting competition, consumers and society.

Increased emphasis on ethics and socially responsible actions

Business also governed by social codes and rules of professional ethics.

Socially responsible behaviour

‘Do the right thing’ ways to protect the long run interests of their consumers and the environment.

- The boom in Internet marketing has created a new set of social and ethical issues. Online privacy issues are a concern. Explosion in the amount of personal data available.
- Much info is systematically developed by businesses seeking to learn more about their customers often without customers realizing. As a result policymakers are taking action to protect consumer privacy.

Cause related marketing

Companies are linking themselves to worthwhile causes to build a positive image.

- Primary source of corporate giving
- Lets companies do well by doing good
- Has stirred controversy, critics worry that it’s more of a strategy for selling than giving

• Cultural environment

Made up of institutions and other forces that affect a society’s basic values, perceptions, preferences and behaviour. People grow up in a society that shapes their basic beliefs and values.

Persistence of cultural values

i.e. most Australians believe in working, getting married, giving to charity and being honest. Their beliefs shape more specific attitudes and behaviours found in every day life.

Secondary beliefs are more open to change – believing in marriage is a core belief
- believing everyone should get married early in life is a secondary belief.
- Marketers have little chance of changing core beliefs but little chance of changing secondary

Shifts in secondary cultural values

Marketers want to predict cultural shifts to spot new opportunities or threats. Main cultural values are expressed in people's view of themselves and others & their view of organisations, society, nature and universe.

People's view of themselves

People use products and brands as self-expression and buy accordingly to their view of themselves.

People's view of others

People are going out less and staying home more. Return to more traditional values of homecooked meals less demand for theatre and travel. This gave more sales to home appliances such as coffee machines.

People's view of organisations

Many people see work as a source of income not satisfaction and don't like their jobs. This suggests organisations need to find new ways to win consumer and employee confidence.

People's view of society

Vary in their view of society – patriots defend it, reformers want to change it and malcontents want to leave it. View of society influences attitudes towards marketplace.

Marketers need to watch consumers' changing social orientations and adapt their strategies accordingly. 'Made in Australia'

People's view of nature

Some feel ruled by it, some feel in harmony with it and some seek to master it. People have recognized nature is finite & can be destroyed by human actions. This has created a 'lifestyles of health and sustainability' market – natural, organic and nutritional foods, fuel-efficient cars and alternative medicines. No animal testing.

People's view of the universe

Religion has been declining. Renewed interest into spirituality and a search for inner purpose – moving away from materialism. Affects the TV shows consumers watch, books they read and products they buy.

Responding to the marketing environment

3 kinds of companies: make things happen, watch things happen & wonder what happened.

Companies must take a proactive stance and take action – hire lobbyists to influence legislation affecting their industries and stage media events to gain favourable press coverage. Run ads to shape public opinion. Contractual agreements to better control distribution channels.