THE UNIVERSITY of York

White Rose Centre for Enterprise

CE Entrepreneurship

The Marketing Environment

The marketing environment is everything outside the control of the organisation which affects the organisation and its ability to succeed.

What factors can you think of that would affect an organisations ability to market portable personal audio CD players?

Some ideas you may have included are:

- customer disposable income
- bank interest rates for those who wish to borrow to buy
- available audio CD's to play on it
- state of technology, is a new format imminent?
- World economic scene including foreign exchange rates which would affect the price competitiveness of foreign goods
- legislative rulings on the playing of portable audio machines in public

The marketing environment can be viewed using the 'onion-ring' model as shown in figure 3.

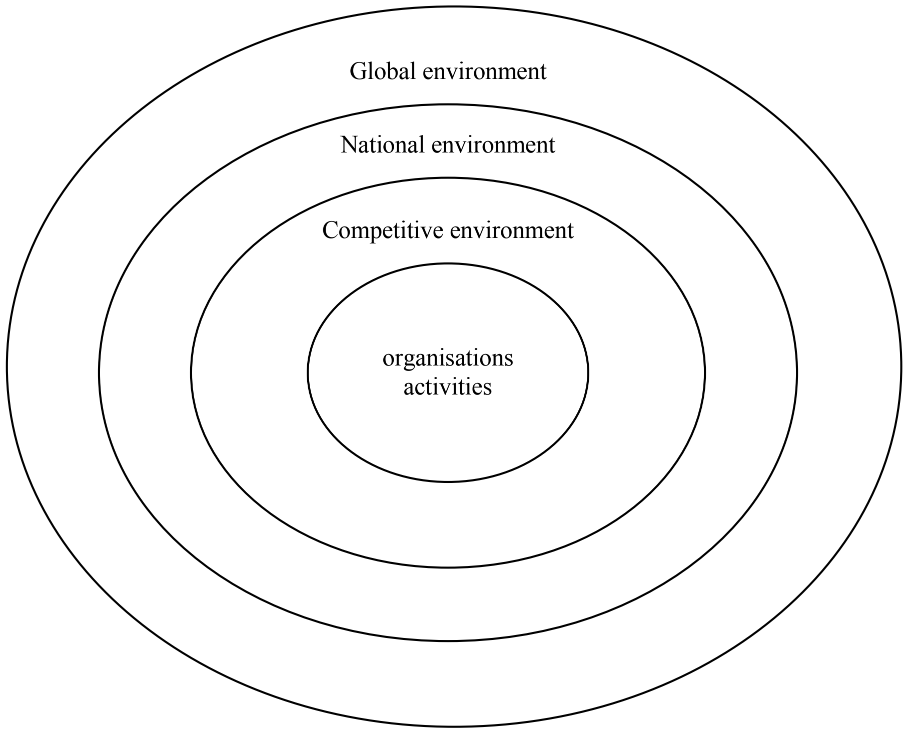


Figure 3. The onion-ring model of the marketing environment

There is, surrounding the organisation, the competitive environment. The other organisations that are either competing or affecting the competition for the product.

What factors can you think of which affect the competitiveness of an organisations product or service?

Porter's five forces

Michael Porter [1] created what is called the five-forces model to summarise the key factors which affect the competitiveness of a product or service. The model is shown in figure 4.

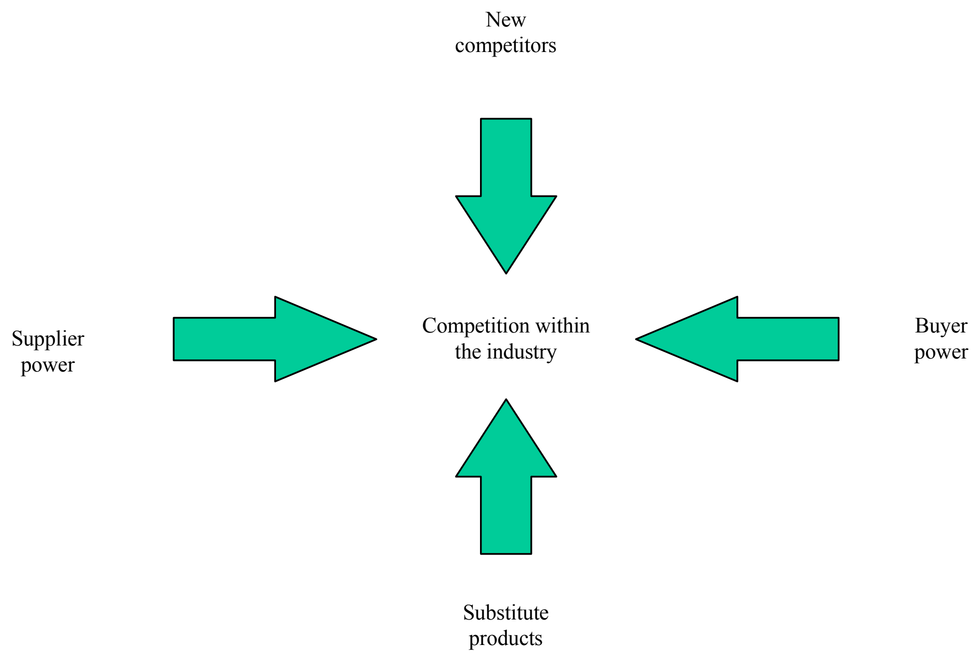


Figure 4. Porter's five forces model

Supplier power:

What do we mean by supplier power? It is when the supplier commands the price, quality, availability.

What makes a powerful supplier? Suppliers are powerful when there are few alternative sources for the items they supply, the ultimate being when they are the sole supplier, when the supplied item is an important input, when it would cost you a lot to switch to an alternative supplier, when the supplier can produce what you produce, i.e. when they can 'integrate forwards'.

How do you prevent giving away power to suppliers? Build good relationships with suppliers; have multiple sources for all the inputs.

Who has supplier power in the previous examples of trade above?

Buyer power:

What do we mean by buyer power? It is when the buyer has strong bargaining power. Buyers tend to want to force prices down, demand more for their money in terms of quality or service, set one supplier against the other in a competitive tender or trade situation, all at the expense of sellers profitabiltiy.

What makes buyers powerful? When products are undifferentiated, i.e. they are very similar to each other - the buyer has the choice, when switching costs are low, when the buyer can produce the item themselves, i.e. when they can integrate backwards.

How do you prevent giving power away to buyers? By selecting buyers who posses the least power to negotiate or switch suppliers, or produce products that are superior or that buyers cannot refuse. Market segmentation and positioning into niches.

Who has buyer power in the previous examples of trade above?

Substitute products

What is a substitute product? A substitute product is an alternative product which will provide the same benefit as the product or service to the buyer.

What examples of substitute products can you think of for the above trades?

One example is substitutes for a MacDonalds hamburger. What are the alternatives? Fish and Chips, Kebabs, Chinese meal, Indian meal, Pizza, Full meal in a high class restaurant. They all fulfill the need to a greater or lesser extent.

What is the effect of substitute products?

They limit the amount that can be charged for a product or service.

What might happen if the price of a decent pizza fell to 50p? How do you think that would affect the market for hamburgers?

Threat of new entrants

What is a new entrant? A new direct competitor

Under what circumstances would a market sector be attractive to new entrants? When it is easy and attractive for people to enter the market - i.e. when there are large profits to be made, when the market sector is growing and likely to continue to grow, when there are plenty of customers, when existing suppliers cannot service all the customer needs, when the cost of entering the market sector is low. Consider entry and exit barriers here.

How attractive do you think it would be for a new entrant in the above business sectors.

How might you set about preventing new competitors entering your competitive arena?

- Offer good quality product/service
- Protect the idea/product through the law
- Buy the competition
- Advertise more

- Create barriers to entry
    - High capital cost for competitors
    - Buy the distribution chain
    - Buy the suppliers
- Undercut i.e. compete on price & make it difficult for the competiton to be able to recover development costs
- Promotions
- Use unique parts.

<u>Direct competition (the central box)</u>

What is direct competition? Where a different company offers the same product to the same buyers.

Who are the direct competitors of MacDonalds?

What is the effect of strong direct competition? Prices fall, quality improves, the product is developed and made better.

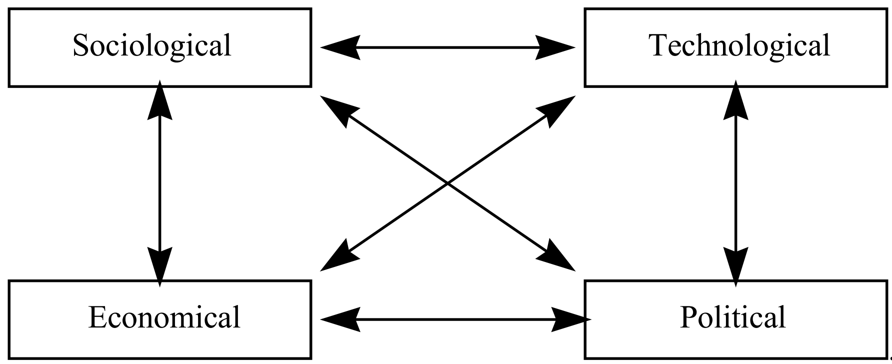
How does a company deal with a highly competitive market place? Join in the price war? Advertise heavily? Introduce new products or offers?

What is the probable result of and or all of these actions? Reduced profit!

The situation is made worse is the market segment is declining or is stable, if capacity additions are achieved in large increments, if fixed costs are high, if exit barriers are high or if competitors have high stakes in staying in the business.

The STEP or PEST factors

PEST or STEP is a convenient way of remembering the four key marketing/competitive environment factors which should be considered when reviewing any situation or change that is affected by the wider environment (the macro-environment)



Sociological factors

Sociological factors are the society-wide or society-based influences and changes that can affect the marketing environment. The can be subdivided into a number of different ways, to possible are demographic and cultural.

Demography: The study of vital and social statistics in their application to ethnology, anthropology and public health. Ethnology is the study of the subdivisions and families of men, their origins, characteristics, distribution and physical and linguistic classifications. Anthropology is the study of man in his physical, social, material, and cultural development, including the study of his origins, evolution, geographic distribution and communal forms.

Demographic changes are changes in population size and make-up. They are slow to change but are fundamental in their effect on the patterns of lifestyle and on the volume and nature of demand for products and services.

What demographic (population) influences can you think of?

Size	Growth rate	Age structure	Sex distribution
Birth & death rate	Life expectancy	Density	Location
Geographic regional shifts	Household size	Family size	Working population
Income & Wealth distribution	Socio-economic groups	Ethnic composition	
Educational participation	Occupational groups	Religious groups	

Culture - the complex set of elements that reflect the society's beliefs and values, perceptions, preferences and behavioural norms. These are expressed in terms of attitudes, behaviours, lifestyle and working lives. From a marketing point of view culture is important because it influences people in a strong way. Different areas have different dominant cultures. Cultures do not change quickly. Secondary level cultures, so called sub-cultures, also develop within broad cultures, examples: the youth culture, regional biases (Yorkshire versus Lancashire), religious or ethic, single parents, students, working mothers, etc.

Going green as an example. If you were the marketing director of a supermarket chain and you have come under pressure to demonstrate to your customers that you have and are actively enacting a green policy, produce a checklist of important thinks you would do - they must be visible to customers. Before next lecture take the checklist to a supermarket and assess them against your list.

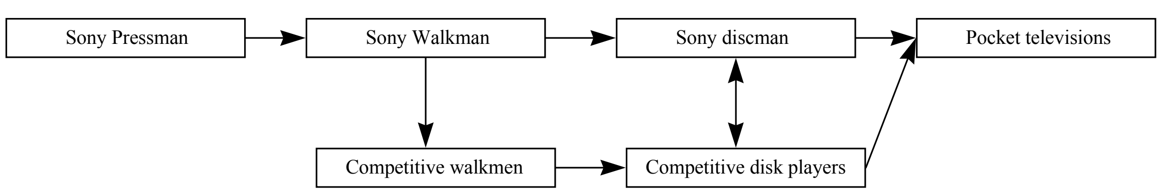
<u>Technological factors</u>

What do we mean by technology?

What major technology changes have occurred over the past 20 years? - IT, computing, biotechnology, fibre optics, aerospace, material science, transportation, etc.

What does technology do to products/services? It can make the obsolete, redundant, out of date, think of some examples of technology changes which have made products obsolete. The metal industry has been hit hard, Weighing machines, typewriters, cash registers have all been replaced by digital equivalents with a lot fewer mechanical parts. Drawing boards have been replaced by CAD terminals. Plastic and metal tooling and high volume moulded parts manufacture together with better materials has allowed garden furniture to be mass produced for very low costs.

The effect of advancing technology? Product life cycles are becoming shorter. Explain product life cycle. The flip side of this coin is that a consumer product manufacturer must produce new products at an every increasing speed if it is not to be left behind by the competition. New product development must be programmed, driven, made cost-effective and, above all, directed to market needs.



Technology has drawbacks as well, the side effects of environmental pollution, damaged landscapes, extinction of rain forests and species, etc. are all the result of technology changes that have enabled products which has resulted in demand, etc.

What technology is used in a supermarket?

What technology is used by a bakers? Cash register, computerised ovens, electrical insect killers, burglar alarm system, etc.

Why is it used, what benefit does it confer on the owner?

Economic factors

How would our economics colleagues define the economic environment?

Macro-economic factors - at the general economy level

Micro-economic factors - at the company or product/service level.

Macro-economic factors: interest rate, foreign exchange rates, inflation, general disposable income of customers.

Micro-economic factors - geographical effects such as the hit Hatfield took when British Aerospace factory closed. Corby when shoe industry took a hit. The towns are now poor areas and all local providers take a local hit.

The economic environment is the result of international, domestic and regional influences and dependencies that affect the market for a product or service. It can affect the ability to sell products as well as develop them - the later especially if the money to develop them needs to be borrowed. Note also that differences in the economic strategies adopted by different nations affects the competitiveness, for example compare Japan and its national strategy to innovation to our own.

A few economic terms worthy of note:

Recession: A downturn in economic activity of variable intensity. Symptoms: fall in industrial output, fall in household income, fall in consumer spending, fall in investment, fall in order books, rise in unemployment, rise in company bankruptcies.

Recovery: The opposite of a recession, varying in intensity and time. Other terms used include, boom, upturn, reflation. Major upturns can result in economic overheating with higher costs and prices, import surges, bottlenecks and shortages, failures through overtrading.

Inflation: Rising prices may be associated with buoyant conditions, demand growth and shortages.

Note these are simplified and generalised descriptions.

Political factors

Political factors include laws, controls and checks introduced by international, central and local governments, etc. The often called regulatory environment. The European community is a point in case at present. Examples:

EMC directive

Medical products directive

Toys

Health and Safety at work

Unfair dismissal

Trades description act 1973

Employment law and minority groups

Monopolies and mergers

Competition standards

Consumer product labelling and protection - food stuff in particular

What other acts or legislation affect businesses