

Market environment

This article needs additional citations for verification.

[Learn more](#)

The **market environment** or **business environment** is a marketing term and refers to factors and forces that affect a firm's ability to build and maintain successful customer relationships. The business environment has been defined as "the totality of physical and social factors that are taken directly into consideration in

the decision-making behaviour of individuals in the organisation."^[1]

The three levels of the environment are as follows:

1. Internal environment – the internal elements of the organisation used to create, communicate and deliver market offerings.
2. External Micro environment – small forces external the company that affect its ability to serve its customers.
3. External Macro environment – larger societal forces that affect the survival

of the organisation.^{[2][3]}

The analysis of the macro marketing environment is to better understand the environment, adapt to the social environment and change, so as to achieve the purpose of enterprise marketing.^[4]

- Micro environment

The forces close to the company that affects its ability to serve its customers include-the internal environment, suppliers customers, marketing intermediaries, competitors and publics.

- Macro environment

The larger societal forces that affects the whole micro environment include-the demographic environment, the political environment, the cultural environment, the natural environment, the technological environment and the economic environment.

Internal environment

The internal environment "consists of those relevant physical and social factors within the boundaries of the organization or specific decision unit that are taken directly into consideration in the decision-making behavior of individuals in that

system".^[1] This includes all departments such as management, finance, research and development, purchasing, Business operations and accounting. Each of these departments influences marketing decisions. For example, research and development have input as to the features a product can perform and accounting approves the financial side of marketing plans and budget in customer dissatisfaction. Marketing managers must watch supply availability and other trends dealing with suppliers to ensure that product will be delivered to customers in the time frame required in order to maintain a strong customer

relationship. These internal factors can be controlled by the organization to a certain extent.

External environment

The external environment "consists of those relevant physical and social factors outside the boundaries of the organization or specific decision unit that are taken directly into consideration."^[1] The external environment can be further broken into micro and macro environments.

Micro-environment

...

The micro-environment consists of customers, partners, and competitors.^[3]

The most important aspect of micro-environment is the customer market.^[5]

There are different types of customer markets include consumer markets, business markets, government markets, Globalization international markets, and reseller markets. The consumer market is made up of individuals who buy goods and services for their own personal use or use in their household. Business markets include those that buy goods and services for use in producing their own products to sell. This is different from the reseller market which includes businesses that

purchase goods to resell as is for a profit. These are the same companies mentioned as market intermediaries. The government market consists of government agencies that buy goods to produce public services or transfer goods to others who need them. International markets include buyers in other countries and includes customers from the previous categories.

Partners include marketing intermediaries, financiers, and advertising agencies.^[3]

Marketing intermediaries refers to resellers, physical distribution firms, marketing services agencies, and financial intermediaries. These are the people that

help the company promote, sell, and distribute its products to final buyers. Resellers are those that hold and sell the company's product. They match the distribution to the customers and include places such as Wal-Mart, Target, and Best Buy. Physical distribution firms are places such as warehouses that store and transport the company's product from its origin to its destination. Marketing services agencies are companies that offer services such as conducting marketing research, advertising, and consulting. Financial intermediaries are institutions such as banks, credit companies and Insurance companies.

Competitors are also a factor in the micro-environment and include companies with similar offerings for goods and services. To remain competitive a company must consider who their biggest competitors are while considering its own size and position in the industry. The company should develop a strategic advantage over their competitors.

The final aspect of the microenvironment is public, which is any group that has an interest in or effect on the organization's ability to meet its goals. For example, financial public can hinder a company's ability to obtain funds affecting the level of

credit a company has. Media public include newspapers and magazines that can publish articles of interest regarding the company and editorials that may influence customers' opinions.

Government public can affect the company by passing legislation and laws that put restrictions on the company's actions. Citizen-action public include environmental groups and minority groups and can question the actions of a company and put them in the public spotlight. Local public are the neighborhood and community organizations and will also question a company's effect on the local area and the

level of responsibility of their actions. The general public can affect the company as any change in their attitude, whether positive or negative, can cause sales to go up or down because the general public is often the company's customer base. And finally those who are employed within the company and deal with the organization and construction of the company's product.

Macro-environment

...

The macro-environment refers to all forces that are part of the larger society and affect the micro-environment. It includes

concepts such as demography, economy, natural forces, technology, politics, and culture. The purpose of analyzing the macro marketing environment is to understand the environment better and to adapt to the social environment and change through the marketing effort of the enterprise to achieve the goal of the enterprise marketing.

Factors affecting organization in Macro environment are known as PESTEL, that is: Political, Economical, Social, Technological, Environmental and Legal.

Demography refers to studying human populations in terms of size, density, location, age, gender, race, and occupation.^[6] This is a very important factor to study for marketers and helps to divide the population into market segments and target markets. An example of demography is classifying groups of people according to the year they were born. These classifications can be referred to as baby boomers, who are born between 1946 and 1964, generation X, who are born between 1965 and 1976, and generation Y, who are born between 1977 and 1994. Each classification has different characteristics and causes they find

important. This can be beneficial to a marketer as they can decide who their product would benefit most and tailor their marketing plan to attract that segment.

Demography covers many aspects that are important to marketers including family dynamics, geographic shifts, workforce changes, and levels of diversity in any given area.

Another aspect of the macro-environment is the economic environment. This refers to the purchasing power of potential customers and the ways in which people spend their money. Within this area are two different economies, subsistence and

industrialized. Subsistence economies are based more in agriculture and consume their own industrial output. Industrial economies have markets that are diverse and carry many different types of goods. Each is important to the marketer because each has a highly different spending pattern as well as different distribution of wealth.

The natural environment is another important factor of the macro-environment. This includes the natural resources that a company uses as inputs that affects their marketing activities. The concern in this area is the increased

pollution, shortages of raw materials and increased governmental intervention. As raw materials become increasingly scarcer, the ability to create a company's product gets much harder. Also, pollution can go as far as negatively affecting a company's reputation if they are known for damaging the environment. The last concern, government intervention can make it increasingly harder for a company to fulfill their goals as requirements get more stringent.

The technological environment is perhaps one of the fastest changing factors in the macro-environment. This includes all

developments from antibiotics and surgery to nuclear missiles and chemical weapons to automobiles and credit cards. As these markets develop it can create new markets and new uses for products. It also requires a company to stay ahead of others and update their own technology as it becomes outdated. They must stay informed of trends so they can be part of the next big thing, rather than becoming outdated and suffering the consequences financially. In order to understand the different spending patterns, marketers need to also take into consideration about the development of digital technology and its effect on market growth and

employment. It is key for a marketer, especially in a digitally-dominated market, to anticipate demand in order to capitalize on potential market growth. Technology has developed to the extent where purchase patterns can be analysed in order to forecast future demand.^[7]

The political environment includes all laws, government agencies, and groups that influence or limit other organizations and individuals within a society. It is important for marketers to be aware of these restrictions as they can be complex. Some products are regulated by both state and federal laws. There are even restrictions

for some products as to who the target market may be, for example, cigarettes should not be marketed to younger children. There are also many restrictions on subliminal messages and monopolies. As laws and regulations change often, this is a very important aspect for a marketer to monitor. As laws and regulations change often, they create barriers that can hugely influence the way in which companies can market their business across the digital community in particular. When conducting business in the United Kingdom, the government is committed to ensuring the best possible platform to start and grow a UK digital business,^[8]

therefore Internet Governance becomes a vital force in the management and control of the growth of the internet and its usage [9]

The final aspect of the macro-environment is the social environment, which consists of institutions and basic values and beliefs of a group of people. These values can also be further categorized into core beliefs, which passed on from generation to generation and very difficult to change, and secondary beliefs, which tend to be easier to influence. As a marketer, it is important to know the difference between the two and to focus your marketing

campaign to reflect the values of a target audience. With entering into an age where technology has a key role in the forming of social beliefs and values, cultural diversity has developed within the world of digital communities.^[10] (i.e. Facebook, Twitter, LinkedIn). These digital communities consist of many groups of demographics that involve different levels of Internet usage and versatile behaviour with online purchasing.^[11]

When dealing with the marketing environment it is important for a company to become proactive. By doing so, they can create the kind of environment that they

will prosper in and can become more efficient by marketing in areas with the greatest customer potential. It is important to place equal emphasis on both the macro and micro environment and to react accordingly to changes within them.^[12]

Environmental scanning

Environmental scanning is one of the essential components of the **global environmental analysis**. Environmental monitoring, environmental forecasting and **environmental assessment** complete the global environmental analysis. The global

environment refers to the macro environment which comprises industries, markets, companies, clients and competitors. Consequently, there exist corresponding analyses on the micro-level. Suppliers, customers and competitors representing the micro environment of a company are analyzed within the industry analysis.^[13]

Environmental scanning can be defined as 'the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market'.^[14] The factors which need to

be considered for environmental scanning are events, trends, issues and expectations of the different interest groups. Issues are often forerunners of trend breaks. A trend break could be a value shift in society, a technological innovation that might be permanent or a paradigm change. Issues are less deep-seated and can be 'a temporary short-lived reaction to a social phenomenon'.^[14] A trend can be defined as an 'environmental phenomenon that has adopted a structural character'.^[14]

Environmental scanning is an ongoing process and organizations are always

refining the way their particular company or business goes through the process.

Environmental scanning reinforces productive strategic plans and policies that can be implemented to make the organization get the maximum use of the business environment they are in.

Environmental scanning not only helps the business find its strengths in its current environment but it also finds the weakness of competitors, identifies new markets, potential customers and up and coming technological platforms and devices that can be best used to sell/market the product or service. Environmental scanning helps a business improve their

decision-making process in times of risk to the external and internal environments the business is in.^[15]

Process

...

When scanning the environment, the organization need to look at all the influences of the company. The scanning process makes the organization aware of what the business environment is about. It allows the organization to adapt and learn from that environment.^[16] When the company responds to an environmental scanning process it allows them to easily respond and react to any changes to both

the internal and external business environment. Environmental scanning is a useful tool for strategic management as it helps them to create and develop the aims and objectives of the company which assists with the production of the company or organization.

When looking at the weaknesses of the organization's placing in the current business environment a formal environmental scanning is used. A common formal environmental scanning process has five steps. The five steps are fundamental in the achievement of each

step and may develop each other in some form:

1. The first step of the environmental scanning process requires the identification of the needs and the issues that have occurred that caused the organization to decide an environmental scanning is required. Before starting the process there are several factors that need to be considered which include the purpose of the scanning, who will be participating in the processes and the amount of time and the resources

that will be allocated for the duration of the scanning process.

2. The second step of the scanning process is gathering the information. All the needs of the organization are translated into required pieces of information that will be useful in the process.
3. The third steps analyzing all the information that the business has collected. When analyzing the information organizations are made aware of the trends or issues that the organizations may be influenced by.

4. The step four of the environmental scanning process is all about the communication of the results obtained in step three. The appropriate decision makers analyze the translated information of the potential effects of the organization. All the information is presented in a simple and concise format
5. With all the information obtained from steps three and four, step five is all about making informed decisions. Management creates appropriate steps that will position the organization in the current business environment. ^[15]

Information sources used

...

The information sources used to gain knowledge and understanding of the current business environment the organization is in can be split into two categories. The external and internal information sources. The external sources aren't always those in a published form and can include verbal sources such as 'word of mouth'. The external information sources includes:

- Personal contacts
- Journals/magazines
- Books

- Newspapers
- Professional conferences/ meetings
- Radio, television and internet
- Professional colleagues
- Customers
- Commercial databases.

The internal information is all information that is specific to the organization. This information can be compared with the external sources to get the maximum use out of both types of sources for the organization, internal information includes:

- Personal contacts
- Internal reports

- Conference papers
- Internal memoranda
- Committees/ meetings
- Sales staff
- Other managers
- Other employees
- Internal databases.^[15]

Barriers

...

Environmental scanning isn't always as effective or useful in an organizational setting for several reasons. The volume of the information received through the scanning process can be disadvantageous when attempting to translate and make

sense of the information as some information may get overlooked or just missed entirely. Because of the volume of information its hard to decipher what is important or not so management and key information may be missed. Another way vital information can be missed is if the information is unordered and unorganized. Due to ever changing environment all information runs under a time limit of validity. Another barrier to environment scanning is the interpretation of information that has been collected. Undetermined sources can cause confusion and irrelevance to the process.^[15]

Macro environment

...

There are a number of common approaches how the external factors, which are mentioned in the definition of Kroon and which describe the macro environment, can be identified and examined. These factors indirectly affect the organization but cannot be controlled by it. One approach could be the PEST analysis. PEST stands for political, economic, social and technological. Two more factors, the environmental and legal factor, are defined within the **PESTEL analysis** (or PESTLE analysis).

The segmentation of the macro environment according to the six presented factors of the PESTEL analysis is the starting point of the global environmental analysis.

PESTEL analysis

...

The six environmental factors of the PESTEL analysis are the following:

Political factors

...

The company/organization needs to consider the political environment when creating business strategies. The entire political environment includes looking at

government policies and the risk and instability of current political factors. Political risks can include an unexpected loss of ownership due to government takeover (nationalization), or changes in labour laws which might increase the cost of the company's workforce. However often business can anticipate issues by performing a political risk analysis. The political instability can influence the business and the duration of time that business/ organization is profitable.^[17]

- Taxation Policy
- Trade regulations
- Governmental stability

- Unemployment Policy, etc.
- political stability

Economic factors

...

The economic factors of the business environment are all the variables that impact how the consumer spends their money and the power of that purchase.

There are multiple factors that exist at any time. An example of an economic factor is the recent recession influenced people to spend less and save more which has impacted current consumer spending patterns. The economic development of a country is an important element when scanning the economic environment. ^[18]

Countries are often categorized as either 'developing' or 'developed'. The exchange rate of a country can have an extensive impact on the profitability of a business. Relatively small changes in the exchange rate may be the difference between profit and loss. When promoting, selling a product it is important for an organization to consider the extra financial information including current rates, taxes etc. in the economy of the country.^[17]

- Interest rate
- Inflation rate
- Growth in spending power
- Rate of people in a pensionable age

- Recession or Boom
- Customer liquidations
- Balances of Sharing

Socio-cultural

...

The socio-cultural environment looks at the demographic characteristics of the current business environment. It looks at the values, customs and norms of the environment of which a company or organisation is placed.^[18] When looking at the socio-cultural environment it is important to consider the social values of the environment. Organizations look at the cultural characteristics of the society and consider all values and customs that are

often associated with the culture while they try to market and sell the product or service,^[17] such as:

- values, beliefs
- language
- religion
- education
- literacy.
- time orientation
- lifestyle.

Technological factors

...

The technological environment is becoming a lot more important in the

modern day business environment. New technology produces new opportunities for companies and organizations to create, sell and promote a product. Technology is rapidly growing and forever changing.

Telecommunication technology e.g.

cellphones and laptops are increasing the opportunity within an organization to promote and sell a product. The internet has made information available to the consumer to easily compare current prices of a product or service with the price of the competitors of the same product or service. The internet has also created more opportunity to market the product or service via the use of social media.^[18]

- Internet
- E-commerce
- Social Media
- Electronic Media
- Research and Development
- Rate of technological change.

Environmental factors

...

The environmental factors of the PESTLE analysis include natural resources that are affected by the processes of selling and marketing products or services. The two main environmental trends that need to be considered when evaluating the natural environment is the increased pollution and

growing shortage of raw materials, Government regulations are creating practices that encourage environmental sustainability. A business might for example utilize recyclable and biodegradable packaging, thus making the most of the environmental opportunities to create a sustainable organizational in the current natural environment.^[18]

- Competitive advantage
- Waste disposal
- Energy consumption
- Pollution monitoring, etc.

Legal factors

...

The legal environment includes the laws and regulations of a state. The laws and regulations will influence the way in which an organization will market or sell the product and services. The legal factors influence trade agreements between different governments and states. The governments that have a well developed public policy about selling and marketing goods may limit competition and place other obligations on retailers.^[18]

- Employment law
- Health and safety
- Product safety
- Advertising regulations

- Product labeling
- Labour laws etc.^[19]

SWOT analysis

...

SWOT or situation analysis is used when without to look at both the internal and external environment. SWOT stands for **Strength, Weakness, Opportunity** and **Threat**. The internal factors considered are the strengths and weaknesses where the opportunities and threats are external factors that are all used and considered to help improve the overall decision making process in dynamic strategic situations the business is facing.

The strengths are positive characteristics in the internal business environment which can be capitalized on to increase the overall organisations performance. The weakness are factors of the internal environment which may restrict and interfere with the positive organizational performance. The internal environment factors will include finance, production, research, development and marketing. The opportunities include factors of the external environment that act like stepping stones for the organization in order to achieve their current strategic goals. The threats include the factors that have an effect and may interrupt the organization

from achieving the goals. Often threats will come out of the external business environment.^[20]

Mesoenvironment

...

The meso-level is settled between the macro- and the micro- level. This field deals with the design of the specific environment of the enterprises. It is of decisive importance that the layout of the physical infrastructure (transport, communication and power distribution systems) and of the sector policies, especially of the education, research and technology_policy, are oriented towards

competitiveness. In addition, the design of the trade policy and systems of rules (for example: environmental norms and technical safety standards), which contributes to the development of national advantages of competition, is relevant. Like on the micro-level, on the meso-level new patterns of organisation and steering must be developed. The state shall give impulses and mediate between enterprises, associations, science and intermediate institutions. "The design of locations becomes like that a continuous process on the basis of the efforts of enterprises, science and state as well as

of the determined cooperation of private and public agents".

References

1. *Duncan, R.B., 1972. Characteristics of organizational environments and perceived environmental uncertainty. Administrative science quarterly, pp.313-327.*
2. *Kotler, Armstrong, Philip, Gary. Principles of Marketing. ALEBASH.*
3. *Greg Elliott, Sharyn Rundle-Thiele, David Waller, Sandra Smith, Liz Eades, Ingo Bentrott. Marketing, 4th Edition. ISBN 9780730362999.*

4. *"What is marketing environment? Definition and meaning" .*
5. *Holm, M, Kumar, V & Rohde, C 2012, 'Measuring customer profitability in complex environments: an interdisciplinary contingency framework', Journal of the Academy of Marketing Science, vol. 40, no. 3, pp. 387-401.*
6. *Armstrong, Gary (2012). Principles of Marketing (5th ed.). NSW: Pearson Education Inc. p. 80. ISBN 9781442531109.*

7. *Varadarajan, P.J.; Yadav, M.S. (2002). "Marketing strategy and the internet: An organising framework". Journal of the Academy of Marketing Science. 30 (4): 296–312. doi:10.1177/009207002236907 .*
8. *"UK Digital Strategy 2017" . www.gov.uk. Retrieved 4 March 2018.*
9. *Chaffney, Dave; Ellis-Chadwick, Fiona (2012). Digital Marketing: strategy, implementation and practice . Harlow: Pearson Education. Retrieved 4 March 2018.*

10. *Chaffney, Dave; Ellis-Chadwick, Fiona (2012). Digital Marketing: strategy, implementation and practice. Harlow: Pearson Education.*
11. *Varley, R. (2001). Retail Product Management. London: Routledge.*
12. *Kotler, Phillip and Gary M. Armstrong(2006), Principles of Marketing (Version 12/E). Pearson Education Inc. New Jersey*
13. *Dillerup, R., Stoi, R. (2006), "Unternehmensführung", Vahlen, p. 179 et seq.; p. 187 et seq.*

14. *Kroon, J. (1995), "General Management" (2nd Edition), Pearson South Africa, p. 76*
15. *Albright, Kendra (May–June 2008). "Environmental Scanning: Radar For Success". Information Management Journal.*
16. *Costa, Jorge (1995). "An Empirically-based Review Of The Concept Of Environment Scanning". International Journal of Contemporary Hospitality Management.*
17. *Samson, Danny (2012). Management In New Zealand. Cengage Learning.*

18. *Armstrong, Gary (2012). Principles Of Marketing. N.S.W: Pearson Australia.*
19. *Jeffs, C. (2008), "Strategic Management", SAGE Publications Ltd., p. 29 et seq.*
20. *Nixon, Judy (2010). "Exploring SWOT analysis - where are we now?: A review of academic research from the last decade". Journal of Strategy and Management.*

External links

Retrieved from

["https://en.wikipedia.org/w/index.php?"](https://en.wikipedia.org/w/index.php?)

[title=Market_environment&oldid=957345755"](#)

Last edited 2 months ago by DoebLoggs

Content is available under CC BY-SA 3.0 unless otherwise noted.