The External Marketing Environment

According to Lamb, Hair, & McDaniel (2011):

"If there is a constant in the environment (outside the company) where companies work and compete is that things change continuously. If the organization does not understand or react to the changing world around it, it will soon be a follower, rather than a leading company. At worst, the company disappears from the market".

Understanding the External Environment

Unless marketing managers understand the environment, the company can't plan for the future intelligently.

Hence many organizations form a specialist team to continuously collect and evaluate information about the environment, this process is known as scanning the environment. The goal of collecting data about the environment is to identify future opportunities and threats in the market.

Does scanning the environment really make a difference? The Aberdeen Group is a Boston-based research firm. It found that companies that used environment feedback to create and modify their marketing mix had an average increase of 26% in exchange for their marketing investment during the previous year. Companies that used to scan the environment less efficiently had only a yield of 4%. Those companies that did not use scanning in any way tended to lag in the market. In short, using the scanning of the environment to understand the ever-changing market and then adapting the marketing mix accordingly is crucial to a company's long-term success.

Some of the key areas that the company should monitor in that environment are:

- **Understand current customers.** That is, how and where they buy, what they buy and when they make their purchases.
- **Understand what drives consumer decisions.** Successful companies know why customers buy. One study revealed that grocery stores visit 3.6 stores regularly. Why? Because different stores played different roles in a consumer's purchasing portfolio. They came to Costco to buy items in large quantities; to Trader Joe's (a local chain) to find unique and interesting items; and Wal-Mart to shop on a single visit to a variety of staples. The local chain lost business in front of niche stores to buy high-margin items like meat, seafood, and produce. Intelligence showed that the local chain could recapture about half of these consumers by having more variety of organic products, international food and branded products in existence.

- **Identify the most valuable customers and understand their needs.** Often 20% of a company's customers produce 80% of the company's revenue. An organization must understand what drives loyalty and then take steps to ensure that those drivers are maintained and improved.

- **Understand the competition.** Successful companies know their competitors and try to forecast their future measures. Competitors present three threats to a company's market share and profitability, but they also offer abundant opportunities for our company to capture competitors' business.

Environment Management

No business is large or powerful enough to bring about a major change in the external environment. Hence marketing managers are basically adapters and not agents of change. For example, despite the huge size of companies as general Electric, Wal-Mart, Apple, and Caterpillar do not control social change, demographics or other factors in the external environment.

However, just because a company can't fully control the external environment, that doesn't mean it's powerless. Sometimes it can influence external events. For example, FedEx's extensive lobbying has allowed them to acquire almost every Japanese route they had sought.

Initially, Japan opposed the new freight routes for FedEx. The favorable decision was based on months awaiting the approval of the White House, various agencies and Congress to overcome the Japanese resistance. When a company implements strategies that attempt to shape the environment in which it operates, it participates in an environment management.

The factors within the environment that are important to marketing managers are categorized into social, demographic, economic, technological, political and legal, and competitive.

Social Factors

For marketing managers, social change is perhaps the most difficult external variable to forecast, influence or integrate into marketing plans. Social factors include our attitudes, values and lifestyles. Social factors influence the products people buy, the prices they pay for them, the effectiveness of specific promotions, and how, where and when they expect to buy such products.

Demographic Factors

Another uncontrollable variable in the environment, also very important for marketing managers, is demographics, studying people's vital statistics, such as their age, race, ethnicity and location. Demographic characteristics are significant because the basis of every market is people and they have a close relationship with consumer buying behavior in the market.

Economic Factors

In addition to social and demographic factors, marketing managers must understand and react to the economic environment. The three economic areas of greatest concern to most marketers are costumer income, inflation and recession

- **Customer Income and Purchasing Power**

Comparison of income with the relative cost of a standard group of goods and services in different geographic areas.

- **Inflation**

Measure of the reduction in the value of the money, expressed as a percentage of the reduction in the value since the previous year.

- **Recession**

Period of economic activity characterized by negative growth, which reduces the demand for goods and services.

Technological Factors

Sometimes new technology is an effective weapon against inflation and recession. New machines that reduce production costs can be one of a company's most valuable assets. The power of a personal computer microchip doubles around every 18 months. The ability, as a country, to maintain and increase wealth depends to a large extent on the speed and efficiency with which machines that increase productivity are invented and adopted.

Political and Legal Factors

Businesses need government regulation to protect new technology innovators, the interests of society at large, a business of another and consumers.

In turn, the government needs business because the market generates taxes that support public efforts to educate our youth, pave our roads, protect our beaches, etc. The private sector also serves as a counterweight to the government.

The decentralization of the power inherent in private enterprise systems provides the limitation on the essential aspects of government for the survival of a democracy.

Every aspect of the marketing mix is subject to laws and restrictions. It is the obligation of marketing managers or their legal assistants to understand and adapt to those laws, because failure to comply with regulations can have important consequences for a company. Sometimes simply perceiving trends and taking corrective action, before a government agency acts, can help avoid regulations.

Competitive Factors

The competitive environment comprises the number of competitors a company must face, the relative size of these and the degree of interdependence within the industry. Management has very little control over the competitive environment faced by a company.

REFERENCE:

Lamb, C., Hair, J. and McDaniel, C. (2011). Marketing. Ohio: Cengage Learning.

Suggested Video:

Robson, K. [Karen Robson]. (2018). Marketing Environment. [Video file]. Recovered from: https://www.youtube.com/watch?v=Dc3wS_Ozlas