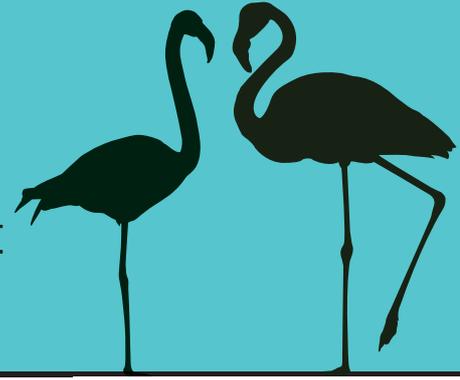


CHAPTER 2

The marketing environment



CHAPTER CONTENTS

Introduction
Classifying environmental factors
The macro environment
The micro environment
Internal environment
Chapter summary
Key points
Review questions
Case study revisited: Costain West
Africa
Case study: Ladbroke's
Further reading
References

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Explain the nature of the business environment, and the relationship between the firm and its environment.
- Understand the problems of dealing with the micro and macro environments.
- Describe the relationship between the elements of the business environment.
- Explain the effects of demographic change on marketing.
- Discuss the nature and sources of competition.
- Explain how technological change can transfer between industries.

Introduction

No business operates in a vacuum. Decisions are made within a context of competition, customer characteristics, behaviour of suppliers and distributors, and of course within a legislative and social framework. People working within organisations are contributing to the welfare of society and of each other, and obtaining satisfaction of their own needs in return: this complex network of exchanges results in a better standard of living for everybody.

From a marketing viewpoint, managing the exchange process between the firm and its customers comes highest on the list of priorities, but it would be impossible to carry out this function without considering the effects of customer-based decisions on other people and organisations. A stakeholder is any individual or organisation affected by the firm's activities – neighbours, suppliers, competitors, customers, even governments – and all of these will have some input into marketing decisions, either directly or indirectly.

Some environmental factors are easily controlled by managers within the firm, whereas others cannot be changed and must therefore be accommodated in decision-making. In general, the larger the firm, the

greater the control over its environment: on the other hand, large firms often find it difficult to adapt to sudden environmental changes in the way that a small firm might.

In order to assess the impact of different environmental factors, managers first need to classify them.



Preview case study: Costain West Africa



Costain is a major international civil engineering company. Founded in Liverpool in 1865, the company became one of the largest British civil engineering companies in the ensuing years. Costain was involved in building the Mulberry harbours used on D-Day, the Channel Tunnel, the Thames Barrier, Hong Kong's airport, and many other large-scale construction projects. At one time Costain operated in 25 countries, but during the 1990s the company contracted and began to concentrate on the UK market, due to the recession that heralded the decade.

Costain West Africa was originally founded in 1948, to take over the Holt construction

business. The company became fully independent of Costain UK when the parent company began its partial withdrawal from overseas markets: Costain West Africa is quoted on the Nigeria Stock Exchange, and is the largest construction company in Nigeria, if not in the whole of sub-Saharan Africa.

Any company in the construction business is likely to be affected by recessions and financial crises: major capital projects are frequently put on hold when money runs short, because an organisation can always cope for another year or two without its new headquarters, and the new bridge can always wait – after all, it wasn't always there, was it? So many construction companies face hard times – as do their suppliers and subcontractors. Costain West Africa was affected by the financial crisis of 2008 as much as any other organisation, but managed to survive and even flourish.

Surviving a financial crisis is no mean feat – but Costain West Africa met this sudden shift in the marketing environment with a uniquely African approach.

Macro environment Factors that affect all the firms in an industry.

Micro environment Factors that affect one firm only.

Internal environment Factors that operate within the organisation.

External environment Factors that operate outside the organisation.

Classifying environmental factors

Factors within the environment can be classified in a number of ways. First, the environment can be considered in terms of those elements that affect all firms within the industry (the **macro environment**), as opposed to those elements that affect only the individual firm (the **micro environment**). In general, the macro environment is difficult to influence or control, whereas the micro environment is much more within the firm's control.

The environment can also be classified as internal or external. The **internal environment** comprises those factors that operate within the firm (the corporate culture and history, staff behaviour and attitudes, the firm's capabilities) and the **external environment** comprises those elements that operate outside the firm (competition, government, customers). A problem for firms lies in deciding where

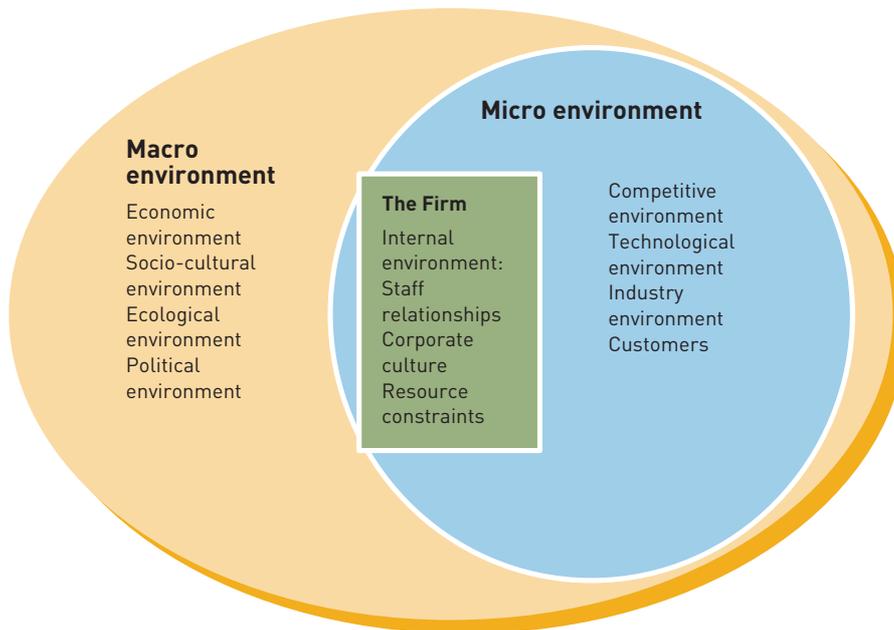


Figure 2.1 Environmental factors

the boundaries lie: for a truly customer-orientated company, customers might be considered as part of the internal environment, for example. Figure 2.1 shows how these factors relate. In effect, the firm operates within a series of layers of environmental factors, each of which has a greater or lesser impact on the firm's marketing policies. As a general rule, the further out the layer is, the more difficult it is for the firm to control what is happening: only the very largest firms have control, or even influence, on the macro environment.

The macro environment

The macro environment comprises those factors which are common to all firms in the industry. In many cases the same factors affect firms in other industries. Government policy, the economic climate and the culture within the countries in which the firms operate are common factors for all firms, but will affect firms differently according to the industries they are in.

In some cases there will be overlap between the micro environment and the macro environment. For example, a very large, global firm operating a subsidiary in a small country might regard the government of the country as part of the micro environment, since it is possible for the firm to control what the government does. This has certainly been the case with major fruit-importing companies operating in Central America. On the other hand, although competitors are usually regarded as part of the micro environment, a firm which is large enough to control an industry might be regarded as part of the macro environment by smaller firms in the same industry.

ECONOMIC ENVIRONMENT

The economic environment is basically about the level of demand in the economy. Most national economies follow the boom-and-bust economic cycle: every seven or eight years the economy goes into **recession**, which means that the production of

Recession A situation in which gross national production falls for three consecutive months.

goods and services shrinks and unemployment rises. A recession is a period of three consecutive months or more in which output shrinks, and the consequences may or may not be serious: during periods of recession, consumers are likely to postpone major purchases such as washing machines or new carpets due to uncertainty about employment security, and (by the same token) businesses will cut back on capital expenditure for such items as new factories or machinery. Borrowing is likely to reduce as consumers and firms become less confident about their ability to repay, and consequently demand drops still further.

In most cases recessions ‘bottom out’ within a few months or a year, but the financial collapse of 2008 created a worldwide recession in which many economies failed to recover for more than five years after the initial crisis. Governments tried many different measures to restart the world economy, but with little success.



Think outside this box!

If governments are so poor at controlling the economy, wouldn't it be better to leave things well alone and let Nature take its course? After all, there are so many factors to take into account in the way the economy works – people's confidence, the availability of manufacturing capacity, the activities of other countries and companies, and so on. Governments in the 19th century only concerned themselves with the defence of the realm and the internal security of its citizens – running the army and the police is a big enough task, surely!

On the other hand, the 19th century was marked by revolutions and rioting throughout Europe as starving people revolted against their governments. Maybe having a job and putting food on the table is a security issue after all.

Governments have a fine balancing act to perform in ensuring that the economy remains stable, and thus provides citizens with a good standard of living and a degree of confidence about the future. The problems caused by the financial crisis of 2008 have far exceeded government power to control: even when several governments act together, the situation can only be managed partially. In recent years, governments have controlled the economy largely by setting interest rates, and by controlling their own taxation and expenditure regimes. Both of these have a strong impact on marketers, because they affect people's willingness to spend on consumer goods and also (for firms that deal directly with the government) affect the size of the potential market. Non-profit organisations may feel the effects even more strongly, since many are funded from government grants and contracts, which may be cut back in times of austerity.

Within the European Union (EU) the common agricultural policy is an example of government intervention. The EU intervenes in agricultural markets, buying up and stockpiling food in order to maintain prices and smooth out supplies. However, this policy has resulted in the so-called ‘wine lakes’ and ‘butter mountains’ when continuing surplus production is bought and stockpiled, until eventually it has to be dumped on world markets or destroyed. On the other hand, the EU specifically prohibits governments from favouring their own national suppliers when ordering

such items as computers or office equipment – all such tenders must be thrown open to suppliers in all member states.

Economic changes can be monitored in several ways. The business press typically provides informed analysis of economic changes, and national treasury officials in most countries also produce impact assessments. These are of variable quality according to the countries concerned. In some countries the assessments are as objective as it is possible to make them, since this allows companies and individuals to make informed judgements. In other countries the treasury produces distorted reports for reasons of political expediency, in order to support the party in power. Some universities and business schools also publish information and forecasts based on their own econometric models, and these may offer a different perspective from those forecasts produced by the government.

SOCIO-CULTURAL ENVIRONMENT

Socio-cultural forces fall into four categories, as follows:

1. **Demographic** forces. Demography refers to the structure of the population, in terms of factors such as age, income distribution, and ethnicity.
2. **Culture**. This refers to differences in beliefs, behaviours and customs between people from different countries.
3. **Social responsibility and ethics**. Derived in part from culture, ethical beliefs about how marketers should operate affect the ways in which people respond to marketing initiatives.
4. **Consumerism**. The shift of power away from companies and towards consumers.

Demographics The study of the structure of the population.

Culture The set of shared beliefs and behaviours common to an identifiable group of people.

Consumerism The set of organised activities intended to promote the needs of the consumer against those of the firm.

The relationship between these elements is shown in Figure 2.2. These relationships will be explained in more detail throughout this section.

Demographic forces are affected by variations in the birth-rate and death-rate, by immigration and emigration, and by shifts in wealth distribution, which may be caused by government policies. The demography of Western Europe has shifted dramatically over the past fifty years as the birth-rate has fallen and improvements in medical care have pushed the average age of the population sharply upwards. The birth-rate in Western Europe as a whole is now lower than the death-rate, so that the population would be shrinking were it not for immigration from Eastern Europe and the Third World. In some countries the situation is approaching

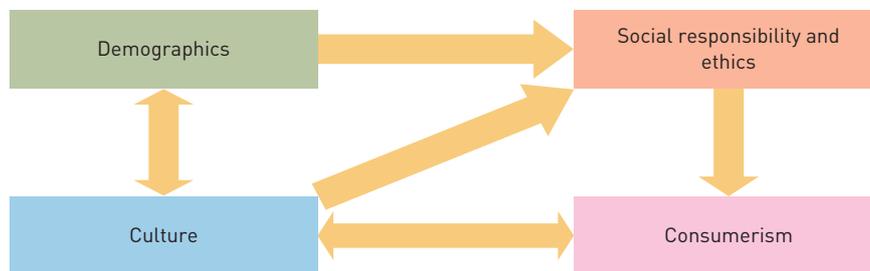


Figure 2.2 Socio-cultural environment

crisis point: for example, Spain has introduced a policy of contacting expatriate Spaniards in Latin America and encouraging them to return home. The Spanish government estimates that it needs 10,000 immigrants per annum to maintain the population.

The problem of depopulation and an ageing population is that many of the older people are retired, and therefore need to be supported by the productive members of society.

An influential report prepared for the EU in 2002 showed that the 15 member states (at that time – there are now 25 members) had experienced considerable immigration, virtually no outmigration, and dramatically reduced birth-rates. Coupled with the increased life expectancy (now around 75 for men, and 81 for women) the net result has been a reduction in the under-25 age group and increases in both the working population and the elderly population. These changes have happened over a thirty-year period from the mid-1970s (Crujisen et al. 2002). The report goes on to say that entry by the new Eastern European member states will change this pattern in the short term, since these countries have lower life expectancies. During the 1990s (following the collapse of Communism in Europe) Eastern European countries have themselves experienced demographic shifts, notably a dramatically reduced birth-rate. These demographic shifts are thought to be the result of worsening health care, fear over job security, and less healthy lifestyles. The authors expect the following demographic shifts as a result of expansion:

1. Population decline will occur several years sooner.
2. Population ageing will be slightly suppressed.
3. Population dejuvenation (reduction in under-25s) will become stronger in future decades.
4. Expected decline of the working population will hardly change.

So far, experience has borne out these findings. There have been dramatic shifts in populations (several million Poles have emigrated to other EU states, for example), so there has been no decline in the working population of the original 15 member states.

From a marketing viewpoint, these changes offer both opportunities and threats. Clearly products aimed at a youth market are likely to decline, whereas products aimed at older people will be in greater demand. In practice, however, this may lead to surprises: for example, an assumption that almost all 70-year-olds have mobility problems may have been true thirty years ago, but improved health care and healthier lifestyles probably mean that most 70-year-olds in the 21st century are as fit as 50-year-olds were in the 1960s. The increase in the elderly population is not expected to peak out until the 2040s, and even this assumption depends on limited improvements in health care and the life expectancy of the very old – in other words, it assumes that people will not live much beyond 100 years old (Crujisen et al. 2002).

A further demographic change (general to Europe) is the increase in single-person households. This has come about through an increase in the divorce rate and increasing affluence: young people no longer live with their parents until they marry, as was the case in the 1950s. At the other end of the age scale, large numbers of widowed elderly people continue to live in the former marital home. In several EU countries single-person households now represent the largest category of household: the UK's 2011 census revealed that single-person households had increased from 17% of all households in 1971 to 31% in 2011. Two-person households represented 32% of all households, making those two categories far and away the greatest proportion of households in the UK (Census 2011).



Real-life marketing: Think small

Most companies like the idea of being big. Retailers especially like to have big, well-stocked shops: a wider range of merchandise means more opportunities to sell something, after all. As in other aspects of marketing, though, you should be prepared to do something the others aren't doing – and thinking small has certainly been a success story for some firms.

The idea is to use small outlets, for example at railway stations and airports, to sell a limited range of goods that all fall into a particular category. This idea is used by firms such as Tie Rack and Sock Shop, who locate in high-footfall areas such as transport hubs. These companies pay a relatively low rent because the premises are very small, but they have a high turnover because people know they can get what they want quickly and easily – someone who has just spilled coffee down his tie can buy another one for that important meeting, for example.

For the idea to work, you should follow these rules:

- Think outside the box.
- Look for a resource that is currently unused or at least under-used.
- Specialise! This is essential for small firms – only very large firms can afford to be all things to all people.
- Don't try to compete head-on with the big companies.



The implications for marketing are widespread. For house builders, smaller homes and starter homes (e.g. flats) will show increased demand. This may mean that smaller models of domestic appliances will be more popular, that pack sizes of cereals and other foods will be smaller, that furniture will be smaller and perhaps more adaptable (for example futons, which convert from sofas to beds) and that security devices will be more popular as more people leave their homes unattended when they go to work. Such a rapid increase in single-person households represents a major challenge for many marketers since it implies a considerable shift in market demand for almost every consumer product.

Income distribution and wealth concentration are also part of the demographic structure. Income is a somewhat fluid concept: pre-tax income does not mean a great deal, since an individual's salary may be heavily or lightly-taxed according to the country concerned and the level of income of the individual. Disposable income is the income remaining after income tax and other deductions, but of course this is not the end of the story – basic household expenses need to be met such as mortgages, local authority property taxes, household bills and so forth. This leaves an amount which the individual can spend in any way he or she chooses: this is called discretionary income. There is, of course, a conceptual problem here in distinguishing between necessities and discretionary purchases. Housing is an example – a relatively wealthy person might choose to live in a small house, and thus have an extremely small mortgage and a correspondingly high discretionary income. Someone else might decide to live in a large house, and have very little discretionary income as a result. In either case, the choice of house was freely-made, so the house purchase

might be considered in the same way as the purchase of a particular brand of bread or make of car. Clothing is even more problematical – wearing some kind of clothing is obviously essential, but the fashion industry is founded on the basis of attracting discretionary income, so the line between necessity and discretionary purchase is somewhat blurred.

CULTURAL ENVIRONMENT

The cultural environment refers to the shared set of beliefs and behaviours prevalent within the society in which the company operates. These include language, religious beliefs, customary ways of working, gender roles, purchasing behaviour, gift-giving behaviour, and so forth. Social behaviour and cultural attitudes play an enormous role in determining consumer behaviour, but they also play a role in commercial purchasing behaviour and in the way staff behave and expect to be treated by employers.

Socio-cultural issues manifest themselves in several ways, affecting both the external and the internal environments of the organisation. For example, a company operating in Thailand will need to consider the role of Buddhism in Thai life, including the fact that most Thai men spend several years as monks at some point in their lives. This would be a surprising entry on the CV of a Western employee, but would be normal in Thailand, and indeed regarded as commendable. Also, Thais have the concept of *sanuk*, meaning ‘fun’, which is applied equally in the workplace as in private life. This means that Thais might expect to spend part of their working day cracking jokes or even singing songs. This can be a difficult aspect of Thai life for Western managers.

Further examples of cultural issues are shown in Table 2.1.

Culture can also dictate the ways people spend their discretionary income. For example, Irish people spend a high proportion of their incomes on alcoholic beverages (around double the UK figure). This does not necessarily mean that Irish people drink more alcohol than their UK counterparts – in part the figures reflect lower incomes in Ireland and higher taxes on alcohol (Euromonitor 2004). It does, however, reflect the importance that drinking has in the Irish culture: Irish

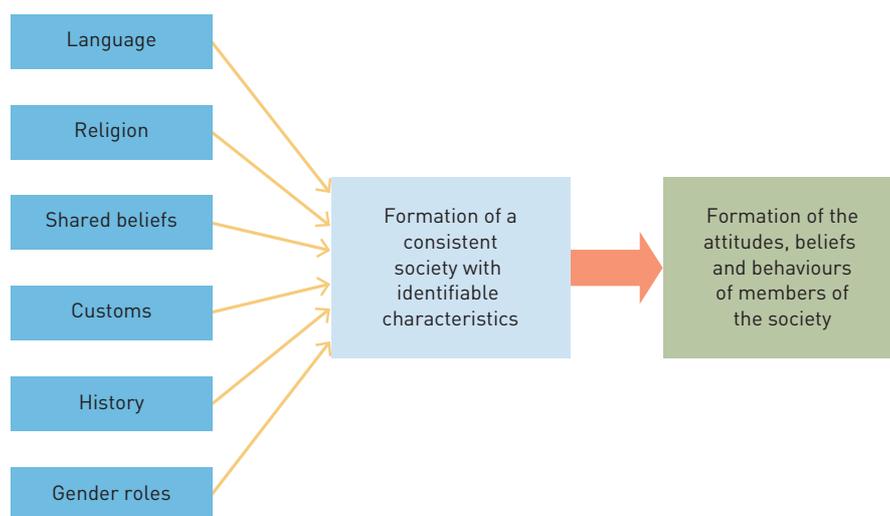


Figure 2.3 Cultural effects

Table 2.1 Cultural issues in the marketing environment

Example	Explanation
Time sense	In many agrarian countries (and warmer countries in general) each day is regarded as being essentially the same as the one before and the one after. Therefore it does not matter if tasks are not completed today: tomorrow is another day. In Northern, industrialised countries each day is regarded as unique, so that lost time is regarded as being lost forever.
Gift-giving behaviour	While gift-giving behaviour is common throughout human societies, the occasions on which it happens are not. The Onam festival in Kerala, Christmas in the UK and the United States, Twelfth Night in Spain and Portugal, and O-Chugen in Japan are all examples of general gift-giving seasons, but they happen at different times of year and have different traditions behind them.
Meanings of symbols.	In advertising, a busy person denotes success to someone from the UK or United States. To an African, the same symbol denotes someone who has no time for others and is selfish.

social life centres around the pub, whereas in the UK social life tends to centre on the home.

Changes in taste and fashion are also a component of the cultural environment. Fashions in food, clothing and even ideas can affect marketing effort.



Real-life marketing: Talk the customer's language

Although we might imagine that we're all speaking the same language, there are many subtleties about language that we might have missed. Communication is not that straightforward – it isn't the linear process we imagine (we say something, the other person hears it, now they know it) because people interpret what they hear and compare it with past experience.

People also interpret by considering the source as well – and that will really affect your communication, because people don't trust marketers!

When the Department of Transport in the UK wanted to reduce accidents among teenage pedestrians, their research showed that teenagers were often involved in accidents while not paying attention to traffic – wandering into the road while texting a friend, filming each other on mobile phones, and so forth. So the Department handed out 14 mobile phones to groups of teenagers and asked them to film their usual activities: the final advert was produced by a group from Stoke Newington in London, with only the final crash scene being filmed using a stunt artist and stunt



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driver. By using the same imagery and language the teenagers themselves used, the ad was hard-hitting without being patronising.

In practice, you need to follow these rules:

- Don't try to guess what the target audience's language is. Otherwise you will end up with a 'Hey, kids, road safety's cool!' – type of patronising message.
- Don't talk down to your audience. They are not idiots.
- Remember that people think about communications – don't assume that once you have said something, they will simply accept it as true.
- Remember that people consider the source of communications – try to make it sound as if it's people like themselves.

Another aspect of culture that evolves over time is the change in lifestyle expectations. In the 21st century few people would consider living without a telephone, television, refrigerator, car, bank account and credit cards. Yet in 1960 each of these product categories was owned by a minority of the UK population. At that time it was common for a whole street to have only one or two homes with a TV set, and perhaps one telephone. In 2013 the vast majority of UK homes have more than one television set, and the advent of cellular phones means that many households have several telephones as well.

Referring back to Figure 2.2, culture and demographic change are interrelated. Culture dictates the aspirations of the population, which in turn dictate some of the changes in income, education and lifestyle. Movement of population also influences culture, as new influences are brought in by immigrant groups – one has only to consider the influence of Indian immigration into the UK on British eating habits, or the equivalent effect in the Netherlands of Indonesian immigration.



Think outside this box!

Earlier on it was mentioned that the Spanish government needs to attract 10,000 immigrants a year to maintain its population balance. All very well, but what about the effect on Spanish culture? In the Middle Ages Spain was invaded from Morocco, and many of the current icons of Spanish culture (flamenco, olive oil, architectural style) were actually Moorish in origin. The great monuments of Spain (the Alhambra, the walled city of Toledo) date from Moorish times.

Can we expect the same level of cultural change from new waves of immigrants? Should we worry about this? Is this type of change something to be feared – or is it a natural part of human development? After all, if the native Spaniards found that cooking with olive oil rather than pig grease made the food taste better, isn't that a positive cultural change?

There is more on cultural issues in Chapter 3.

POLITICAL AND LEGAL ENVIRONMENT

Political influences affect businesses in two main ways: first, political parties have policies that are often put into legislation, which clearly must be obeyed. Second,

the ruling party sets the general tone of behaviour in the country as a whole, and in government departments in particular. This subtle change in the national culture will also affect business.

The political environment is usually regarded as including the regulatory environment, whether such regulation emanates from the government or from industry-based bodies. Some examples of government controls in business are as follows:

1. **Patent legislation.** Governments set the rules about what may and may not be patented, and for how long. In high-tech industries such as bioengineering or software design, intellectual property may represent the bulk of the firm's assets. Changes in patent (and copyright) law can have profound effects. This is particularly an issue in the international arena, since there is no such thing as a world patent: products must be patented in each country separately, and in some countries (notably Taiwan) few products are patentable, so that companies are left open to having their products copied at a fraction of the cost of the 'genuine' product.
2. **Taxation.** Apart from the general taxation regime on corporations, governments often impose selective taxation on specific products in order to manage demand and raise revenue. This is particularly a problem in the alcoholic drinks industry and the tobacco industry, but in recent years changes in the classification of different products in respect of VAT has had a marked effect on some firms. As with patent legislation, taxation varies from one country to another and therefore firms need to be particularly careful when entering foreign markets.
3. **Safety regulations.** Products need to conform to national safety regulations. Within the EU many attempts have been made to co-ordinate the wildly differing safety laws in the member states, but to no avail: finally, the EU has adopted the stance that any product that is legal in one member state will be legal in all member states unless the governments concerned can demonstrate that there is a very real danger to human or animal life.
4. **Contract law.** Governments can, and do, amend contract law although much contract law is developed through the decisions of law courts. In the UK, contract law is looser than it is in the United States: in America the written agreement is the basis of the law, whereas in the UK verbal contracts are as binding as written contracts. There is, of course, the problem of proof in the case of verbal contracts. The main area of government intervention in contract law has been in the field of consumer protection, where the contract between the consumer and the retailer is often regulated to compensate for the perceived imbalance of power between individual consumers and large companies.
5. **Consumer protection legislation.** Apart from contract law, mentioned above, governments often enact legislation designed to protect consumers. In the UK there are several hundred laws relating to consumer protection, covering everything from credit agreements to the quality of goods sold. In general, the old principle of *caveat emptor* (let the buyer beware) is no longer necessary since retailers are required to ensure that goods are of a suitable quality for the purpose for which they are intended, are being sold at prices that are transparent and reasonable, and can be returned if they are faulty or (often) when the customer changes his or her mind.
6. **Control of opening hours.** In the UK, the opening hours of retail shops are limited only on Sundays, when shops may open for six hours only (with exemptions for small businesses). In other countries tougher restrictions apply: in particular, retail hours in Germany are still heavily limited by law. In the past the opening hours of German retailers were even more restricted, the net result of which was the development of one of the largest mail order markets in the world.

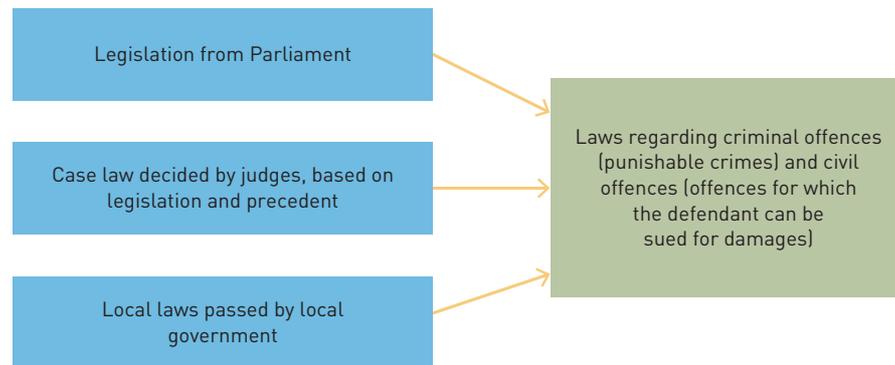


Figure 2.4 Sources of law

A change in the political nature of the government can make considerable changes in the general tenor of the law. Left-wing governments traditionally increase the number of laws and restrictions on businesses (taking the hand of government approach to ethics described in Chapter 10), whereas right-wing governments tend to reduce restrictions on business (taking the invisible hand approach – again see Chapter 10 for more on this).

The enforcement of legislation is usually left to specialist bodies such as the Office of Fair Trading and the Trading Standards Institute. Trading standards are enforced at local authority level, with each council in the UK having its own trading standards department. In the United States the same function is carried out by the Better Business Bureau (BBB), which is a non-profit body funded by businesses themselves. Businesses fund the BBB in order to keep the rogue operators out – honest businesses are then able to compete on a level playing field.

The legal environment is created in two ways: first, by government legislation, and second by case decisions made by judges. Case law is created when legislation is put into action: the law is often unclear, and individual circumstances mean that judges (and magistrates) need to clarify matters, usually by referring to other cases that have been decided already. This system of referring to other examples ensures a degree of consistency in decision-making, but of course each case is different in some way, which is why they need to be argued out in court.

Local government

Local government does not pass laws as such (although there may be some local bye-laws affecting businesses) but often has the role of enforcing national laws. Local authorities also deal with such issues as planning permission and the zoning of business activities (retail parks, residential areas and manufacturing areas).

In most cases planning permission presents few problems that marketers need to worry about, but areas that have caused difficulties for marketers include planning permission for signs and displays, the location of billboards, and the zoning of out-of-town retail parks. On the one hand, small businesses tend to oppose the creation of large retail parks since they represent serious (and sometimes fatal) competition, but on the other hand such retail parks offer an opportunity for large firms to grow.

The extent to which such regulations affect firms varies from one country to another: in France it is relatively easy to obtain permission for large out-of-town stores or hypermarkets, and a reasonable compromise has been worked out between the hypermarkets and local businesses whereby small businesses are given space within the hypermarket complex. In Italy, on the other hand, restrictions are extremely strict and hypermarkets have great difficulty in obtaining permission to build.

The European Union

The European Union has the role of trying to co-ordinate business law throughout the member states in order to ensure a fair and competitive environment for businesses operating within the EU. Ultimately, the intention is that businesses will be able to compete on an equal basis throughout the EU, but the problems are all but insuperable and it will be some time before there is a single body of regulation covering all member states. Some of the issues are as follows:

1. **Technical standards.** Although most EU countries use the metric system, Britain and Ireland use the imperial system, which is almost entirely incompatible with the metric system. Simply changing the sizes of such items as plumbing fittings and electrical wiring is not enough – most of the buildings in both countries were built using imperial measures, which means that any repair work or alterations need to be carried out either using imperial size components or using conversion fittings where one system joins another. At a more subtle level, the specifications for wiring, plumbing, strength of bricks and so forth vary among member states. Even the television broadcasting systems differ – video recordings made in the UK will not play on Spanish televisions, although they will on French and German systems. Building regulations differ between member states, and even such things as the threads on screws and bolts differ, so that British fixings manufacturers need to retool their factories to be able to do business on the Continent.
2. **Frontier controls.** These have largely been abandoned since 1993, when the European Single Market came into existence. However, Customs officers still have the right to stop vehicles and check for illicit goods, some of which might seem surprising. For example, there is no problem shipping computers, gemstones and alcoholic drinks across European borders but there is a problem shipping bananas between the UK and Germany. Immigration controls are in place for non-EU citizens, but the difficulty of policing all the former frontiers means that in most cases immigration officers rely on spot checks and occasional tip-offs to catch illegal immigrants.
3. **Safety standards.** Common criteria for safety and health have been agreed, but only at a somewhat minimal level. Provided a product conforms to basic EU safety regulations it is given the CE mark and is legal for sale anywhere in the EU. However, such products may not meet the safety standards of products manufactured in the target country.
4. **Currency fluctuations.** The introduction of the Euro for most member states has meant that companies operating between Eurozone states no longer have to consider the risks of currency fluctuations. A company doing business between the UK and France has to take account of the possibility that the pound might strengthen or weaken against the Euro, and must therefore fix the price of the goods to allow for the possibility of a fluctuation, or must buy or sell currency in

Database marketing Using a list of customers or potential customers stored on a computer to drive the marketing effort.

Telephone selling The practice of using telephone communications as a personal selling medium rather than face-to-face meetings.

advance in order to minimise the risk of losing money on the contract. Companies dealing between (say) France and Spain do not have this problem, because all prices and costs are calculated in Euros. Sweden, Britain and Denmark were not members of the Euro at the time of writing: in September 2003 Sweden overwhelmingly rejected membership as a result of a national referendum. In fact, members of the Euro have found that it has brought problems as well as benefits: soaring prices in Germany, an unwelcome influx of holiday-home buyers in southern Spain, price rises in France, and increased smuggling of cigarettes throughout the EU have all followed on from the single currency.

5. Advertising. The EU has made some progress towards harmonising advertising regulations, but apart from introducing a Europe-wide ban on tobacco advertising in broadcast media (TV and radio) there are no regulations that apply throughout the EU.

Meanwhile, the EU continues to seek ways of unifying marketing law. It would seem likely that the main successes will happen in the new media such as the Internet, **database marketing**, **telephone selling** and so forth, simply because national laws in member states are only in their infancy and therefore will need only minimal changes.



Marketing in a changing world: The European Union



The European Union was originally conceived as a single trading bloc in which goods, capital, labour and enterprise could move freely between the nations, with a common external tariff barrier. As time has gone on, it has become much more: it now regulates a great deal of what happens within member states, and aims to create a single set of ground rules for all firms throughout the 27 member states.

Although the EU has had a rough ride during the financial crisis, with the very real threat of members leaving (either because they had no money, or because they had money and didn't want to share it), it seems fairly unlikely that it will break up. The benefits of membership are too great.

From a marketing viewpoint, greater integration has a number of possible consequences. Industry tends to be more regulated in Northern Europe than is the case in the UK, for one thing. For another, as the continent becomes more integrated it will compete better against the United States and the Far East (led by Japan). As new trading blocs emerge, the EU should be strong enough to resist outside incursions into its markets. The emphasis is therefore on co-operation with other European firms in the same business, rather than competition. The future almost certainly lies in being part of a big trading bloc, with large companies able to fight their corner.

REGULATORY BODIES

Some regulatory bodies are government-sponsored and government-run. Most of them are established as independent bodies, in other words they operate without

direct involvement from politicians. These are sometimes called QUANGOS, meaning quasi-autonomous non-governmental organisations. They have a specific task to perform within a limited set of guidelines, and are therefore able to act much more quickly than a government department could. Here are some examples of UK QUANGOS:

1. Ofcom. This is the organisation responsible for regulating the telecommunications industry. Since the privatisation and deregulation of the telephone system in the 1980s, several hundred companies have established themselves in the telecommunications market at some level or another, from major landline and satellite providers like British Telecom through to small companies providing answering services.
2. Ofgas. This organisation is responsible for controlling gas suppliers. Ofgas is concerned with selling practices in the industry, billing problems, difficulties encountered when switching suppliers, and disputes between suppliers. Part of the problem for Ofgas has been the practice of doorstep selling energy services, using salespeople who are unsalaried and who rely on the commissions they get for converting customers. In some cases these salespeople have been less than ethical in their approach to selling, sometimes telling outright lies or even forging signatures. The difficulty for Ofgas is that part of its remit is to encourage vigorous competition between suppliers (Benady 1997).
3. Independent Television Commission. In conjunction with its sister organisation, the Radio Authority, the ITC controls commercial broadcasting. Both organisations have the responsibility for issuing licences to broadcast, and have several responsibilities. First is to ensure that programme content meets generally-agreed standards of good taste. Second, both are charged with the responsibility of ensuring that the broadcast media do not fall under the control of too small a group of people, so mergers and acquisitions between broadcasters are carefully scrutinised. Third, and perhaps most importantly for marketers, both organisations have responsibility for monitoring and approving broadcast advertising. This includes ensuring that advertising appears at appropriate times (considering that children might be watching or listening), that advertising content is within the bounds of good taste, and that advertising is clearly differentiated from programming. The ITC is also responsible for monitoring **product placement**. At one time, any reference to a brand name was not allowed, but the impossibility of removing brands from feature films made this ruling unworkable. The current position is that brands can be shown, but the programme makers are not allowed to accept money for including a specific brand (unlike the film industry, where movies are frequently funded by brand owners).
4. Office of Fair Trading. This government organisation has two remits: first, to protect consumers and explain their rights, which it does through advertising campaigns and occasional leaflets, and second to ensure that businesses compete and operate fairly. The OFT tends not to become involved in individual consumer problems, but lays down guidelines and occasionally becomes involved in test cases. In other words, the OFT might become involved in a general problem of unsafe imports from a foreign country, but would not become involved in a case of a customer who has bought faulty double glazing.

Product placement The use of branded products in TV programming or movies.

5. Monopolies and Mergers Commission. The MMC has the responsibility for preventing companies from exercising undue power in the marketplace due to having an excessive share of the market. This does not mean that a monopoly or near-monopoly is not allowed: it merely means that the MMC will monitor such situations carefully to ensure that the company or companies involved do not abuse their power, for example by fixing prices at too high a level or by preventing other companies from entering the market. For example, the washing-powder market is entirely controlled in the UK by Unilever and Procter and Gamble. Because of the high cost of the plant and equipment needed to make washing powder, other firms cannot economically enter the market, so the MMC monitors the situation to ensure that the two giant firms do not exploit their position.

In the voluntary sector there are many regulatory bodies that have been set up by industries themselves. In many cases, this has been seen as a way of forestalling government intervention: if the industry does not have its own regulatory body, the government might well step in to establish one. This is the case with the Advertising Standards Authority and the British Board of Film Censors.

The ASA is probably the voluntary organisation that most impinges on marketers. However, it has no statutory powers to compel advertisers or media such as newspapers and television to comply with its rulings. In practice, the ASA operates on the basis of complaints received, and will act even if only a few complaints come in. The ASA will examine the advertisement concerned, interview the advertisers and their creative people if necessary, and then decide whether the complaint is justified. If the complaint is upheld, the ASA will request the advertiser to withdraw the advertisement. If the advertiser refuses, the ASA will ask the media not to run the advertisement. These requests are rarely refused – in the event that they are, the Office of Fair Trading does have the power (under the Control of Misleading Advertisements Regulations 1988) to apply for a legal injunction to prevent the advertisement being shown, but this is rarely invoked since no one in the industry wants the expense of litigation or, indeed, to encourage government intervention.

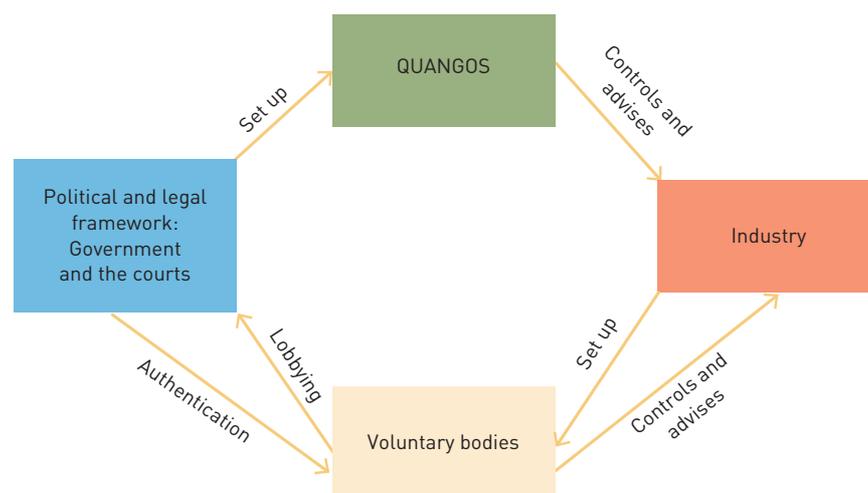


Figure 2.5 Regulatory bodies



Think outside this box!

If an organisation is set up by an industry, presumably it is funded by that industry and its management is appointed by the industry. So how can such a body have any credibility at all? How can it possibly bite the hand that feeds it by seeking to regulate the activities of its founders?

Maybe the founders of these organisations felt that they were pure in heart themselves, but that the rogues needed to be regulated. All well and good – but everyone's a rogue sometimes. Might there not be a danger of the leading firms being treated more leniently than the small guy struggling to get established by whatever means present themselves?

One of the problems the ASA faces is that it has no authority to vet advertisements before they go out. Thus by the time the ASA has acted, the advertisement has already been seen, and the publicity surrounding its withdrawal often means that the advertisement achieves a much greater impact than it otherwise might have done. Benetton in particular have been accused of exploiting this situation by deliberately producing highly provocative advertisements in the certain knowledge that the ASA will issue a request for their withdrawal.

Many industries have **trade associations** which police the activities of members. If a firm is a member of a trade association, this provides some reassurance for potential customers because the trade association will have a code of conduct which its members are expected to adhere to, and which usually provides some redress for disappointed consumers or sanctions against rogue members. Attempts have been made by some trade organisations to co-ordinate their codes of practice across Europe, but given the widely differing consumer protection laws and systems in different countries this is proving somewhat problematical.

Trade association A group of companies in the same industry, set up to look after the collective interests of the group.

INFLUENCING THE MACRO ENVIRONMENT

For smaller firms, the macro environment usually has to be accepted as it is. Large firms are able to influence some aspects of the macro environment, however. Advertising campaigns can affect the country's culture in at least a small way, although in most cases this happens more by accident than by design. For example, some advertising slogans have found their way into everyday conversation (Compare the Market's Meerkat says 'Simples!', which is one example from the UK, and the saying 'an apple a day keeps the doctor away' began life as a promotional slogan for apple farmers in the 1900s). This can be seen as an example both of the power of advertising to enter the national consciousness, and also the fulfilment of an advertising copywriter's dream.

However, in most cases advertising has only a superficial influence on culture. The main influence that large firms have on the macro environment lies in the area of **lobbying** government for changes in the law, and in playing leading roles in the regulatory bodies. This type of influence is not restricted to businesses, however: pressure groups and even individuals can also lobby government, even at the simple level of speaking to the local Member of Parliament.

For smaller firms, the chances of making any material change to the macro environment are minimal. The best way of having some effect is to join a trade organisation or other pressure group. In some countries, politicians can be sponsored by pressure groups and in others pressure groups sponsor political parties in order to receive favourable treatment at a later stage when the party is in power. In the UK,

Lobbying Making representations to politicians with the aim of changing legislation.

sponsorship of political parties is subject to careful monitoring to ensure that this does not unduly influence legislation, but in practice the Labour party is largely financed by trade unions and the Conservative party is largely financed by big business. This sponsorship will inevitably affect the thinking of politicians.

The micro environment

The micro environment comprises those elements of the environment that impinge on the firm and usually its industry, but do not affect all firms in all industries. The micro environment is composed of the following elements:

- The competition. In a sense, all firms compete with all other firms for consumers' limited spending power. For most practical purposes, though, consideration of the competition is limited to firms providing similar solutions to the same customer problem.
- Technology. Major technological changes such as the advent of satellite communications or cellular telephones clearly affect most industries. Such radical technological advances are relatively rare, though – most technological change happens in small increments. In most cases technological change only affects a relatively small sector of the economy: for example, a new manufacturing process for aluminium will have some effect on any firm or customer using aluminium products, but the firms most affected will be aluminium refiners.
- Industry structure and power relationships. This may be related to competition, but equally encompasses supply chains and strategic alliances between firms. Some industries operate in a highly-competitive manner, while others are more co-operative: for example, funeral directors tend to be fairly co-operative with each other, whereas estate agents are highly competitive.
- Customers. The pool of customers, the nature of them, the different segments of the market made up of people with slightly different needs, will all affect the firm. For example, a law firm specialising in corporate law will have a very different customer base from that of a firm specialising in house conveyancing. The difference in customer type will affect almost everything about the firm, from the design and location of its offices through to its recruitment policy.

Monopoly A situation in which one company controls the market.

Oligopoly A situation in which a group of companies control the market between them.

Perfect competition A state of affairs where everyone in the market has perfect knowledge and no one buyer or seller can influence the market.

Monopolistic competition A situation in which one company exercises a strong influence in the market, but other companies still enter the market and compete effectively.

THE COMPETITION

Competition is a fact of life in any business. There is no such thing as a product that has no competition, because each product (from the consumer's viewpoint) represents a way of solving a problem. Before the product existed, people almost always had some other way of solving the problem: it may not have been as effective, but it existed. For example, television was certainly a radical technological breakthrough, and from the engineering viewpoint it had no competitors. There was, at the time, no other way of transmitting pictures electrically and instantaneously over a long distance. From the consumer's viewpoint, though, television was simply another entertainment device, which was perhaps more convenient than the cinema which it replaced (or the theatre before that) but did not represent a very major change.

Competition can vary greatly between industries, however. As we saw in Chapter 1, competition can be categorised as a **monopoly** (in which one firm controls the market), an **oligopoly** (in which a few large firms control the market between them), **perfect competition** (in which no single buyer or seller can significantly influence the market) and **monopolistic competition**, in which companies offer products that are sufficiently different from each other as to constitute monopolies in the short term. The main types of competition are shown in Table 2.2.

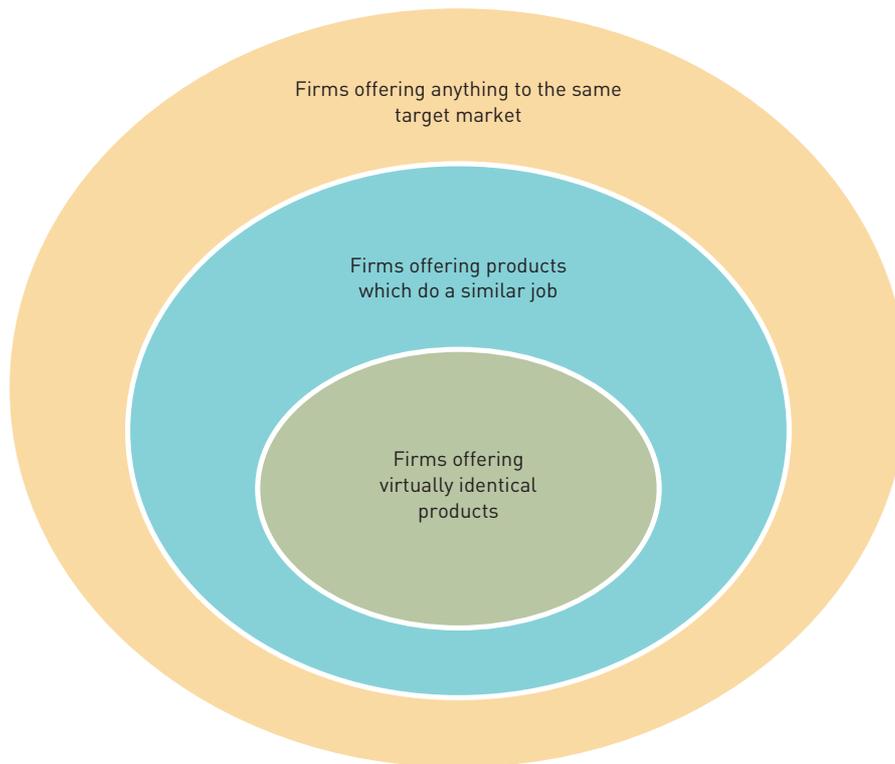


Figure 2.6 Levels of competition

Table 2.2 Competition

Type of competition	Explanation
Perfect competition	This is a condition where there are many suppliers none of whom is large enough to control the market, many customers who also cannot individually influence the market and a product that is homogeneous, i.e. does not differ from one supplier to another. Perfect competition also assumes that all parties have complete knowledge of the market. In practice, this type of competition does not exist, apart from a few special cases such as the international money markets.
Oligopoly	An oligopoly exists when a few companies control the supply of goods. Oligopolies almost always fix prices, either by agreeing prices between themselves (a practice which is illegal in most countries) or by being very careful not to start a price war by undercutting each other.
Monopoly	This is a circumstance in which one company supplies the entire market. Very few monopolies exist, since they almost invariably lead to companies setting excessively high prices and earning excessively high profits. In most countries monopolies are carefully regulated, and even prevented, by government intervention. However, there are cases where a monopoly is almost inevitable – the railway systems in most countries are monopolies, for example.
Monopolistic competition	This occurs when companies differentiate their products sufficiently that they can be considered as monopolies, at least in the short term (until competitors copy the differentiating features). This is the commonest type of competition.

Much business strategy is concerned with establishing the firm in a suitable competitive position (there is more on this in Chapter 10). Too-rapid growth may lead to unwelcome attention from major firms, whereas too-slow growth may lead to being left behind by other small firms. Equally, a large firm cannot afford to be complacent: new challengers will arise all the time.



Real-life marketing: Don't compete!

In business, we often use the language of warfare: we talk about campaigns, capturing markets, beating the competition and so forth. This is fine unless you are a small firm: your chances of beating a large firm are minimal.

There has long been a tradition of co-operating with non-competitors – for example, takeaway food outlets co-operating with DVD rental outlets – but a more recent trend has been to co-operate with competitors. Even large companies do this – car makers Seat, VW and Ford co-produce the Ford Galaxy/Seat Alhambra/VW Sharan, which is essentially the same car.

For example, when Communism collapsed in Eastern Europe, there was a fear that Western Europe would be flooded with cheap cars from the East. Skoda in particular was seen as a threat – although under Communism its cars had become clunky and unreliable, it had at one time been an upmarket manufacturer on the lines of BMW. Most manufacturers braced themselves for a competitive onslaught – but not Volkswagen. VW co-operated with Skoda, providing it with new technology and better manufacturing processes. Skoda is now a serious manufacturer again, but VW owns it and takes its profits that way, even though the two companies operate entirely independently.

To do this in practice, you should be careful about the following:

- Ensure that both parties gain – you have to bring something to the party as well.
- You aren't allowed to collude in order to share out the market between you – the monopolies regulators are watching! For small firms this won't be a problem, of course.
- You should try not to cannibalise each other's markets.
- You don't need to buy out the competitor – you can agree to co-operate in all sorts of other ways.

Competitor analysis can be carried out using Porter's Five Forces Model (Porter 1990). This model offers a way of assessing the likely strength of competition in any given market. The five forces are as follows:

1. The bargaining power of suppliers. If suppliers have strong bargaining power, the competitive pressure will be greater.
2. The bargaining power of customers. Customers with strong bargaining power will be more demanding and can set one supplier against another. This will make the competition fiercer.
3. The threat of new entrants. If it is easy for new companies to set up in the same business, the competition will be strong; if it is difficult for new firms to enter the market, the existing firms can become complacent.
4. The threat of substitute products and services. If close substitutes are readily available, the competition will be stronger. For example, pizza delivery companies recognise each other as competition, but the business is extremely competitive because of the existence of many other types of takeaway food.

- 5. Rivalry among current competitors. In some industries firms will have a ‘live and let live’ approach, which reduces competition. This is particularly the case in oligopolistic markets, and in markets that are well-established. In new or rapidly-growing markets such rivalry will tend to be stronger and therefore the competition will be stronger.

The bargaining power of suppliers, if high, can seriously reduce industry profits and thus make the competition stronger. The bargaining power of suppliers is determined by the factors shown in Figure 2.7.

If there are few suppliers, the buyer has very little room for bargaining. Suppliers in such circumstances can operate oligopolistically, setting the terms for business between them. For example, hairdressing businesses in the UK have a choice of only six or seven suppliers of hairdressing products. Most hairdressing businesses are small, owner-managed concerns with very little buying power, so they are unable to bargain effectively with their suppliers.

Suppliers’ products cannot always substitute for each other. A typical example is the motor industry: spare parts for Ford cars will not fit Toyotas and vice-versa, so the garage business is forced to buy from a small group of suppliers. Likewise, in the computer software industry some software will not run on certain operating systems.

Vertical integration of the industry refers to the degree to which the supply chain is owned or controlled by a few firms. A highly integrated industry (for example the oil industry, where a few companies control everything from extraction through refining and distribution to the petrol forecourt) does not allow many opportunities for competitors to enter.

The importance of buyers to the supplier is about the extent to which a buyer represents a strategic opportunity for the supplier. Large buyers such as major retailers may control the market – for example, the toy industry is largely controlled by Toys R Us. In general, though, the evidence is that few companies bother (or are able) to develop their suppliers effectively (Wagner 2006).

Vertical integration A situation in which one company controls or owns suppliers and customers throughout the supply chain.

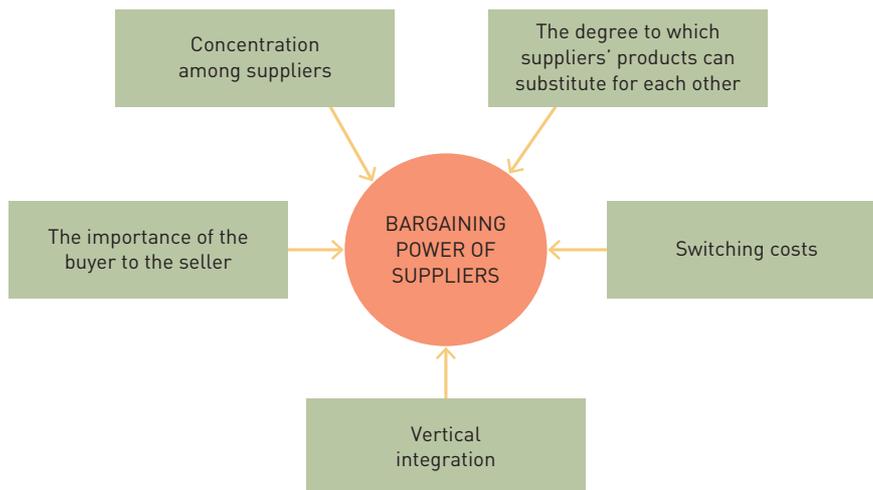


Figure 2.7 Factors in the bargaining power of suppliers

Finally, if it would be expensive to switch from one supplier to another, the suppliers occupy a strong position. This is the case for firms such as Microsoft, since switching from Microsoft systems might well mean making changes to hardware, retraining staff, redesigning administrative systems and so forth.

The bargaining power of customers is determined in much the same way as the bargaining power of suppliers, except that the deciding factors work the other way round.

New entrants to a market can pose a threat for the established companies, but the danger of new firms being able to enter the market is limited by the following factors:

Economies of scale Cost savings resulting from large production runs.

Differentiation Factors that distinguish one product from another.

Switching cost The expenditure of money and effort resulting from changing from one product to another.

1. **Economies of scale.** If the industry is such that production can be carried out efficiently only on a very large scale, entry will be less likely. For example, modern steel production operates efficiently only when steel is produced in very large quantities.
2. **Product differentiation.** If the products are very similar, new entrants can easily produce copies. If, however, the existing companies have managed to create highly differentiated products (either by strong branding or by using patented technology) it becomes difficult for new companies to establish a foothold in the market.
3. **Capital requirements.** If the capital outlay needed to enter the market is large, few companies will be able to raise the necessary money, especially without a track record in the industry. For example, for many years the major airlines had little or no serious competition. The cost of buying a fleet of aircraft was prohibitive. However, in recent years the wide availability of good second-hand aircraft has allowed niche operators such as Ryanair and easyJet to enter the market.
4. **Switching costs.** If it would be prohibitively expensive for the customers and consumers within the industry to change suppliers, new entrants will be unable to gain a toehold in the market. This is a strong barrier to entry.
5. **Access to distribution channels.** If the industry has already integrated the distribution network (the supply chain), new entrants will be unable to obtain distribution. This is a critical determinant of success in markets that are geographically large, such as the United States: the key issue for any new firm is obtaining distribution for its products.
6. **Cost advantages independent of scale.** Sometimes firms within an industry will have access to supplies of raw materials, or will own patents, which mean that newcomers are unable to produce competing products at an economical price. Of course, sometimes it is the newcomer that has the new patent or access to sources of supply, in which case the established firms may have a problem.

TECHNOLOGY

Technological change goes beyond the more obvious changes seen in recent years as a result of communications and electronic technology. For example, Toyota developed new technology for car manufacturing which enabled them to retool a factory to produce a new model in only a few days, instead of the six months or so it took their American and European rivals. This meant that the firm were able to make better use of capital equipment and also were able to be much more flexible in meeting changes in the market.

A technological change can transform an industry. Most of the products in common use today did not exist 100 years ago: refrigerators, televisions, dishwashers,

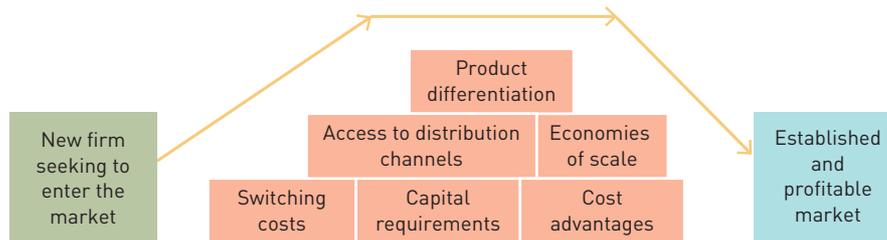


Figure 2.8 The market entry mountain

telecommunications satellites, microwave ovens, jet aircraft, computers, frozen foods and many others. The pace of technological change appears to be increasing, as more firms invest in research and development and ideas are more rapidly disseminated due to improved communications. For example, Sony now estimate that a new electronic device has a life of around three months before its replacement will be produced – whether the replacement is produced by Sony or by a competitor is irrelevant to the consumer, so the firm is forced to develop new products that will hurt the sales of its existing products.

The effects of this technological explosion are widespread for the firms concerned. As a threat, the possibility of competitors developing products that will wipe out existing products on the market is very real. All new products replace something else, since people almost always have an existing solution for a real problem. Transistors replaced the thermionic valve over a period of only a few years, computers have virtually eliminated the carbon-paper industry, and digital music players such as the iPod have gone a long way towards replacing CDs, as CDs have replaced vinyl records (and of course vinyl records replaced shellac 78 rpm records, which replaced wax cylinders).

A further problem is that the new technology might arise in an apparently unrelated industry. It would have been impossible for postal services to have recognised the threat from new computer technology in the 1970s, but the advent of cheap personal computers has led in turn to the Internet revolution, and the explosion in e-mailing. This has undoubtedly had a marked effect on postal services worldwide, as people send e-mails rather than writing letters. Equally, the development of electronic watches virtually destroyed the Swiss watch making industry, which relied on mechanical technology and did not have the necessary expertise or technological infrastructure to make the necessary changes.

Maintaining a technological lead requires firms to make heavy investments in research and development. This in turn means that the investment must be repaid from sales of the product – and given the shorter product life cycles involved, the payback must be very high. This means either that the profit margins per unit of product must be high, or the market must be very large. This is why most companies in rapidly changing markets such as electronics have adopted a global marketing approach. This is the only way these firms can access a large enough market to be able to obtain the necessary returns on their capital.

Because of the domination of large, globalised firms in high-technology areas, smaller firms find themselves unable to compete effectively. This has resulted in a number of cross-border collaborations. In some cases these have worked well, especially in relatively low-tech industries such as vehicle design and building, but in others the results have been less than exciting.

In most cases companies tend to make minor improvements to existing products rather than aim to make complete redesigns. Sometimes these improvements are made to their own products, but frequently companies will produce a 'me-too' adaptation of a competitor's product. This is likely to lead to a response by the competing firm, which of course increases the pace of change.

Sometimes new technology is developed by university researchers rather than by research departments of companies. For example, the basic technology of the laser was developed at universities in the United States and Russia, even though the final working model was developed at Hughes Laboratories. Even then this revolutionary device had no discernible purpose – it was four or five years before anyone was able to make practical use of lasers. This is an example of the value of pure research (research that has no immediate practical value).

In some cases technological development is delayed by legislation. New drugs need to go through extremely rigorous testing and in some countries (notably the United States) product liability legislation places a strict liability on manufacturers to ensure that their products are safe. This is another reason for producing 'me-too' products: the competitor has already dealt with the safety issues.

INDUSTRY ISSUES

Any competitive act must be considered in the light of possible retaliation. The structure and nature of the industry is crucial in understanding the possible results of any actions. The intensity of competitive response will depend on the following factors:

1. The degree of concentration in the industry. The fewer the competitors, the greater the likelihood of an oligopoly.
2. The rate of growth of the industry. Rapidly growing industries are usually less stable than established industries, with greater fall-out of companies that are unable to adapt quickly enough. This means that marketers must be very quick to respond to competitors, and be prepared for rapid retaliation in turn.
3. The degree of differentiation. If the products are essentially the same (for example, petrol) the nature of competition shifts to other factors. In some cases the other factor is price, but this is a dangerous way to compete because it squeezes profit margins. Marketers generally aim to compete on service or product features rather than price.
4. Cost structures. If fixed costs are high (for example because the industry is capital-intensive) profits are dependent on maintaining a high level of sales. The airline industry is a prime example: airlines cannot afford to have planes flying half-empty, so they are prepared to discount seats in order to maintain efficiency. Effective marketing means having systems in place to accommodate this.
5. Investment structures. If the industry is one in which new investment is made in sizeable chunks, new entrants will make a strong impact on existing firms until demand catches up. For example, if there are three hotels in a town and a fourth one opens up, the impact will be substantial, at least in the short term.
6. Competitive information. If firms in the industry can inform themselves easily about what their competitors are doing, oligopolistic behaviour is the likeliest outcome. On the other hand, some industries (such as farming) operate in almost total ignorance of what other farmers are planting this year, which leads to occasional surpluses or shortages.

7. Strategic objectives of competitors. In some industries, the firms have strategic objectives that do not conflict with other firms in the industry. For example, Ford does not compete strongly with Rolls-Royce because they are aiming at different sections of the car market.
8. Cost of leaving the industry. In some industries, capital assets that have a theoretical book value in the millions may have little or no second-hand value, and thus any firm that leaves the industry will have to leave behind its assets, and thus go bankrupt. Mining and steel production are examples.

The industry environment may be controlled by sources of supply, or by a lack of customers: for example, the oil industry is controlled in large part by the OPEC countries, who are the producers of petroleum. In the past, the oil companies ran the industry, but during the 1970s the oil-producing countries realised that they held the real power if they were prepared to act together, and they have controlled the world price of oil ever since. At the other end of the supply chain, aircraft manufacturers have relatively few potential customers. Most of the world's airlines are too small to be able to afford new aircraft, so manufacturers can only approach a relatively small number of major national airlines. Equally, there are relatively few large aircraft manufacturers in the world.

Internal environment

The firm's internal environment is the internal culture, staff relationships and resource constraints that colour all of the activities and decisions made by the organisation.

All firms operate with limited resources. Firms create competency in what they do by making appropriate combinations of the resources at their disposal: the more effectively the resources are deployed, the better the firm will do in the competitive environment. Ensuring that the internal environment is working well is an important aspect of management: it is not always part of the marketing manager's remit, but it is (at the conceptual level) marketing.

STAFF RELATIONSHIPS

The relationships between staff within the organisation are key in ensuring an effective working environment. While there are many areas of staff relationships that are outside the control of managers, management should be able to create an environment in which staff relationships can flourish.

Organisations have, in general, two structures that work in parallel. The **formal structure** is shown on the organisation chart, and shows where each person fits into the overall hierarchy. This structure shows who is answerable to whom, and which department is responsible for which set of activities. People in the formal structure have specific job titles and, usually, fairly clearly defined responsibilities to the organisation.

The **informal structure**, on the other hand, is not shown on any organisational chart. It comprises the friendships and alliances which are struck up by people who share a lift home, or who have lunch together every day, or who meet at the photocopier or coffee machine. The informal structure cuts right across the organisation chart, and is often more powerful in running the organisation than is the formal structure. Where the formal structure lays down exactly what people should be doing, the informal structure allows people to be flexible in what they do. Problems that have been unaccounted-for in the organisational chart can be

Formal structure The official relationships between members of an organisation.

Informal structure The unofficial relationships between members of an organisation.

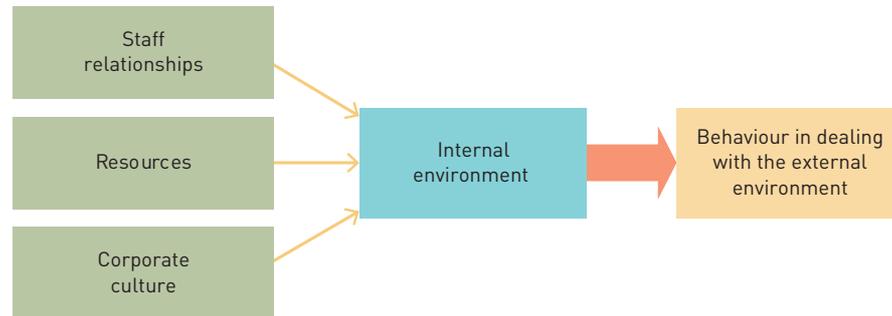


Figure 2.9 The internal environment

solved by people who can call in a favour from a friend in another department. For this reason, managers should encourage the informal structure to develop – it provides a flexibility of response in a changing world. Research shows that joint reward systems and social networking are the two most important factors in reducing conflict between marketers and others within the company (Chimhanzi 2004). In many organisations, fostering the informal structure is seen as an internal marketing responsibility.

CORPORATE CULTURE

Culture is a set of shared rules and beliefs. Within organisations, beliefs will develop, and a corporate culture will eventually emerge. Corporate culture has been called ‘the way we do things round here’ and it can be a powerful influence on staff behaviour. Research shows that people are able to have one set of beliefs outside work, and an entirely different set of beliefs in the workplace. However, corporate culture and personal ethics should not be too widely separated: staff need to feel that they are working for an ethical organisation (see Chapter 3 for more on this).

Developing the appropriate corporate culture is a lengthy process, since people change slowly. Often the beginning of a corporate culture is the firm’s mission statement, in which the company lays down its long-term aims and overall beliefs. In some cases, a charismatic leader will be able to impose a corporate personality on the organisation, but this type of corporate culture sometimes dies with the founder.

RESOURCE CONSTRAINTS

All organisations suffer from a lack of resources, but of course some suffer more seriously than others. What is more important is the way the organisation uses its resources and plays to its strengths. As an analogy, a good cook can take flour, butter, apples and so forth and make an apple pie. A great chef can take the same ingredients and produce a delicious confection – but a bad cook can produce an inedible mess. The resources plus the management input constitute what the marketer has to work with, and no matter how wonderful the marketing campaign being planned, and no matter how effective it would be, the plan cannot work if the organisation does not have the necessary resources.

Marketers are frequently faced with the frustrating situation in which senior managers will cut the marketing budget because business is bad. Marketers naturally

respond by saying that cutting the marketing budget is the worst possible solution, since it will inevitably lead to a further loss of business, but if this argument does not work the marketers are forced into a situation of having to achieve the same results with less resources. This often calls for considerable creativity.

Chapter summary

The environment within which the business operates clearly affects marketing plans. Marketers are always looking outwards, mainly towards the customers and competitors who make up the market, but they also need to consider the internal environment because this is where the resources come from to maintain a marketing plan.



Key points

- No business operates in a vacuum.
- The macro environment is largely uncontrollable: the micro environment is much more susceptible to influence or control.
- The elements of the environment overlap, and also impinge on each other.
- Interest rates are the main tool of government control of the economy, since globalised business means that most governments are too small to influence the world economy.
- The ageing populations of most industrial countries are often well-off: they represent an opportunity, not a threat.
- Judges create law by making decisions on specific cases.
- Competition may be indirect: it may not even come from the same industry.
- Technological change can also come from unrelated industries.

Review questions

1. How might a rise in the rate of inflation affect marketing policy?
2. How might a toy manufacturer respond to the changing demography of Europe?
3. Which industries might be affected by the discovery of an anti-ageing drug?
4. How might a large company and a small company differ in their dealings with a government regulatory body?
5. How might governments respond to a cross-border merger between two major steel companies?
6. What might be the effect on food retailers of the increase in single-person households?
7. How might a pizza delivery service define its competition?
8. How might a company develop a positive corporate culture?
9. Why do most companies tend to take an incremental approach to innovation?
10. Why would an industry spend time and money to establish its own regulatory system rather than allow the government to do so?



Case study revisited: Costain West Africa

Sub-Saharan Africa is an interesting continent, culturally speaking. There is a sense of collective responsibility, which is often sadly lacking in northerly countries – Africans look after each other.

Costain West Africa managed to survive the sudden financial crisis because the company has a foothold in both the public and the private sector. It is rare for both sectors to be in trouble at once, so Costain managed to switch efforts back and forth between its government projects (for example working on the Jebba–Kano railway line) and its private-sector projects (building an eight-storey apartment building in Abuja). The result was that the firm came through the crisis well – but unfortunately many of its suppliers and subcontractors hit financial difficulties as their funding dried up.

Costain West Africa's response was to provide lines of credit to these crucial suppliers. This meant they could keep their heads above water until the crisis eased, and would then be well-placed to take advantage of any new growth in the Nigerian economy. Of course this benefited Costain West Africa as well, since without suppliers and subcontractors the company would be unable to function, but it is an approach few Northern companies would have taken. Costain West Africa also announced that the company would be funding the training of local men as construction workers, since the crisis meant that foreign workers could no longer be brought into the country.

Costain West Africa has a strong commitment to sustainable, socially-responsible business, but there is no doubt that helping others through the crisis has benefited the company very directly.

Case study: Ladbroke's



Gambling is, of course, a vice – yet many of us enjoy the occasional bet, and for a lot of people it's almost a way of life. As a business, it's often regarded as recession-proof, because people will sometimes try to win their way out of financial troubles. Gambling offers people a degree of hope in troubled times, so bookmakers can see a rise in business during financial crises.

Ladbroke's had its beginnings in the 19th century, acting as a horse agent. During the early part of the 20th century the company was limited to taking bets only at racecourses – off-course gambling was illegal. Then in 1961 the UK government made off-course betting shops legal, and a gambling revolution

swept the country. Although restrictions were tough, and licences to run betting shops were difficult to obtain, this move regularised what was happening anyway – instead of people dealing with illegal back-street bookmakers, the industry was out in the open and could be regulated. In 2005, the UK government legalised advertising for betting shops, and again there was an increase in business. The legislation also allowed for on-line gambling (which cannot be controlled anyway, since the Internet is global) which gave another boost to the industry.

During the 1980s and 1990s the company diversified into other leisure businesses: it bought DIY chain Texas Homecare in 1986, selling it on to Sainsbury's PLC in 1995: in 1999 it bought the Stakis hotel chain and rebranded it as Hilton. These ventures were partly successful in that the company turned a profit on their resale, but eventually the firm reverted to its roots, and is now Britain's largest bookmaker, and overall the largest bookmaker in the world. Ladbroke's is an innovative company – it was the first bookmaker to offer a loyalty

card, it was among the first to set up on-line gambling (from its office in Gibraltar), and it was the first company to introduce fixed-odds football betting. In 2010 the company announced that its staff would act as call centre operators during quiet times, as a way of maximising efficiency: rather than relocate the company's call centre to Gibraltar, as at least one rival had done, incoming calls were routed to betting shops all over the country so that staff could take bets over the phone. This greatly increased the efficiency of the operation since staff time was used more effectively, and in any case telephone betting was going into decline as a result of a greater emphasis on on-line betting.

Sometimes this creativity has a downside – the company's advertising has been the subject of complaints from the Advertising Standards Authority, some of which were upheld.

The company has a liking for expanding by acquisition: a failed takeover of on-line sporting bookie Sportingbet in 2011 was caused by a change in the Turkish regulatory framework. The Turkish government introduced a ban on on-line gambling in 2007, but of course this only applied to companies with a base in Turkey: Sportingbet simply moved its Turkish operation to the Channel Islands, but there were still regulatory problems since the intention of the Turkish authorities was to make on-line gambling impossible for Turks. Sportingbet therefore planned to sell the Turkish operation so that the merger with Ladbroke's could go ahead, but Ladbroke's legal team decided that the risk of regulatory fallout was too great – in other words, they were afraid that the Turkish government might yet be able to impose sanctions on the company for illegal gambling.

Another takeover, this time of 888.com (another on-line gambling rival) also failed when the parties could not agree a price. Market watchers agreed that the gambling industry was ripe for takeovers – but Ladbroke's seemed to keep missing the bus. Nevertheless, corporate disappointment was considerably mollified by an impressive leap in profits from the company's gaming machines, which are sited in pubs, clubs and cafes throughout the country. The appetite for takeovers was not diminished, either – in January 2013 the company announced a takeover bid for Irish on-line gambling company Betdaq. This company operates a system whereby gamblers can place bets directly with each other, with the bookmaker taking a cut of the bet.

Ladbroke's has certainly ridden out many storms during its long existence. Changes in regulations, economic ups and down, mergers and acquisitions have all contributed to the company's history. As a member of the FTSE 250 the company has the prestige and success usually accorded only to major manufacturing or retail companies: gambling has certainly come out of the shadows and into the mainstream.

Questions

1. How have regulatory changes affected Ladbroke's?
2. How has the company responded to volatility in the marketplace?
3. How has technology played its part in Ladbroke's planning?
4. What should Ladbroke's do to reduce risk in future?
5. What competitive pressures are there on Ladbroke's?

Further reading

This is a somewhat specialised area, with relatively few books dedicated solely to the marketing environment. However, here are some possibilities.

Adrian Palmer and Bob Hartley, *The Business and Marketing Environment* (Maidenhead, McGraw-Hill, 1999). This gives a comprehensive coverage of the marketing environment and the management issues surrounding it.

The UK's Chartered Institute of Marketing also publish several study guides on the marketing environment, geared towards the CIM Diploma examinations (www.cim.co.uk/Home.aspx).

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