2 The marketing environment

Objectives

After reading this chapter you should be able to:

- recognise the main environmental factors affecting marketing decisions;
- formulate ways of coping with the marketing environment;
- recognise ways to exploit opportunities in the environment;
- understand the principles of marketing strategy;
- explain the strategic issues behind the formulation of marketing plans.

INTRODUCTION

No business operates in a vacuum; any organisation is surrounded by laws and liabilities, pressure groups and public bodies, customers and competitors. These are part of the marketing environment that the organisation works within, and since marketing is at the interface between the organisation and the outside world, dealing with this environment is a major part of the marketer's work.

This means that the marketing policy of a firm (or any organisation) should be viewed as operating within a complex and rapidly changing environment. These external factors must be monitored and responded to if the organisation is to meet its goals.

THE MARKETING ENVIRONMENT

The marketing environment represents a complex array of threats and opportunities for the organisation, and can sometimes seem difficult to categorise. Generally speaking, the marketing environment can be divided into two areas: the **external environment** and the **internal environment**. The external environment is concerned with everything that happens outside the organisation, and the internal environment is concerned with those marketing factors that happen within the organisation. Often organisations concentrate far more attention on the external environment than on the internal environment, but both are of great importance.

There are two basic approaches to dealing with environmental forces: reactive and proactive. The **reactive** manager regards environmental factors as being uncontrollable, and will therefore tend to adjust marketing plans to fit environmental changes. **Proactive** managers look for ways to change the organisation's environment in the belief that many, even most, environmental factors can be controlled, or at least influenced in some way.[1]

THE EXTERNAL ENVIRONMENT

The external environment consists of two further divisions: factors close to the organisation (called the **micro-environment**), and those factors common to society as a whole (the **macro-environment**). Micro-environmental factors might include such things as the customer base, the location of the company's warehouses, or the existence of a local pressure group that is unsympathetic to the business. Some micro-environmental factors (for example, availability of skilled employees) overlap into the internal environment. The macro-environment might include such factors as government legislation, foreign competition, exchange rate fluctuations or even climatic changes.

The external environment is often not susceptible to direct control; the best that marketers can do is to influence some elements of it, and to react in the most appropriate ways to avoid the threats and exploit the opportunities it presents.

Situational analysis

Managers need to know where they are now if they are to be able to decide where they are going. This analysis will involve examining the internal state of health of the organisation, and the external environment within which the organisation operates.

At the simplest level, managers can use SWOT analysis to take stock of the firm's internal position: SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Strengths and weaknesses are factors which are specific to the firm; opportunities and threats arise from the external environment. These factors can be broken down further, as shown in Table 2.1.

The list in Table 2.1 is not, of course, comprehensive. Equally, a threat might be turned into an opportunity: a competitor's new technological breakthrough might lead us to consider a takeover bid, for example, or new legislation might provide a loophole which we can exploit while our competitors have to abide by the new rules.

TABLE 2.1 SWOT analysis

	Internal factors	*External factors*
Positive factors	*Strengths* What are we best at? What intellectual property do we own? What specific skills does the workforce have? What financial resources do we have? What connections and alliances do we have? What is our bargaining power with both suppliers and intermediaries?	*Opportunities* What changes in the external environment can we exploit? What weaknesses in our competitors can we attack? What new technology might become available to us? What new markets might be opening up to us?
Negative factors	*Weaknesses* What are we worst at doing? Is our intellectual property outdated? What training does our workforce lack? What is our financial position? What connections and alliances should we have, but don't?	*Threats* What might our competitors be able to do to hurt us? What new legislation might damage our interests? What social changes might threaten us? How will the economic (boom-and-bust) cycle affect us?

STEP (Socio-cultural, Technological, Economic, and Political) analysis is a useful way of looking at the external environment (it is also sometimes written as PEST). Table 2.2 shows some of the main changes that are occurring under each of those headings.

STEP and SWOT analyses are simply different ways of looking at the environment and at the firm's place in it. The external marketing environment is itself subdivided into micro- and macro-environments, as shown in Figure 2.1.

TABLE 2.2 Current environmental changes

Heading	Example	Implications
Socio-cultural	Changing role of women[2]	As technology replaces muscle power as the dominant form of earning money, women are becoming less dependent on men as financial providers. Within many industrialised countries, most married women work outside the home; the mother who stays at home is now in the minority. This affects the way women are portrayed in advertising, but also affects spending patterns: sharing household tasks, for example, means an increase in the use of convenience foods since neither partner has as much time for cooking.
	Post-industrial society[3]	As automation of manufacturing increases, more people work in service industries. Traditional class divisions are disappearing, with new ones rising to take their place; the growth of lifestyle analysis affects the way marketers portray their target consumers. Greater tendencies towards individualism will affect purchases of package holidays, sports goods and entertainment.[4]
	Demography	Shifts in the birth rate cause distortions in the market: for example, a combination of falling birth rates and increased longevity is causing the population profile of Europe to become heavily skewed towards older people.[5] This opens up opportunities for sales of items specifically designed for the elderly.
Technological	Information technology	The Internet has opened up opportunities for advertising and direct marketing, particularly in cases where businesses sell their goods to other businesses. Also, the greater knowledge about consumers' buying patterns which is held on computer allows more accurate targeting of individuals (see Chapter 12).

TABLE 2.2 Current environmental changes (*continued*)

	Space technology	Apart from the revolution in communications (both telephone and television) that satellites have brought, there are increasing possibilities for new manufacturing techniques to be used in space. Also, the technology used for rocketry has resulted in spin-offs for terrestrial production of goods.
Economics	Boom-and-bust cycle	At approximately eight-year intervals most national economies go into recession. This means that the production of goods and services shrinks, jobs are lost, and businesses become bankrupt. Purchase of major capital items such as new kitchens, houses, cars and washing machines slows down, and consumers become less willing to buy on credit as job security reduces.
	Micro-economics	Micro-economics is concerned with exchanges and competition. Competitive activities are very much the domain of the marketer.
Politics	Influence of political parties	Governments usually have policies concerning trade and industry: in part this is to ensure a growing economy and increased prosperity, in part it is to increase the number of jobs. Changes of government will often cause shifts in emphasis which might lead to disruption for individual firms.
	Legislation	Laws arise in two ways: government legislation (laws created by politicians) and case law, which is the law as interpreted by judges. Politicians can be influenced by petitions and by reasoned argument; this is called lobbying. Case law can be appealed by the parties to it, but is harder to influence. International law can sometimes have powerful influences on businesses, depending on where the firm is located. For example, European (EU) law must be passed through the national governments of the member states; changes during the 1990s mean that EU law supersedes national law and can therefore virtually be imposed on the member states. This makes it difficult to influence or control.

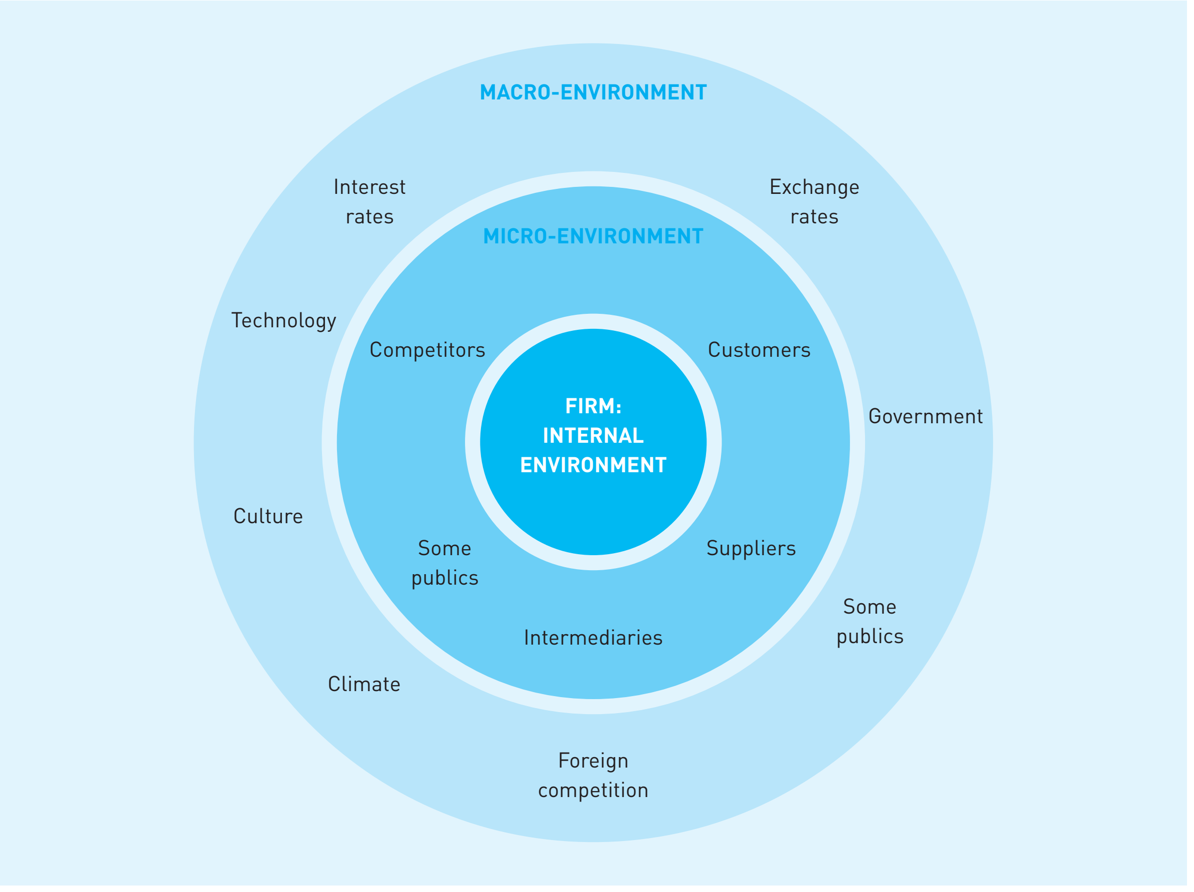

FIGURE 2.1 Micro- and macro-environmental forces

The micro-environment

The micro-environment is made up of those factors that impact closely on the organisation, and typically consists of the following elements:

- competitors;
- customers;
- suppliers;
- intermediaries;
- some publics.

Competitors

Frequently firms fail to recognise who their *competitors* are. It is not at all unusual for firms to define competition too narrowly, simply because they define their business too narrowly. For instance, if a bus company defines itself solely as being in the bus business, the management might reasonably define the competitors as being other bus companies. If, on the other hand, the company defines itself as being in the transportation business, the management will recognise the competition from railways, taxis and even bicycles.

A high street retailer might focus on competition from other high street retailers, and not recognise a dot.com company as being competition for the consumer's limited expenditure. Marketing managers need to decide which competitors offer the closest substitutes *in terms of meeting the consumers' needs.* Grouping consumers with similar needs and characteristics is called **segmentation** (see Chapter 4). Since each segment has different needs, the threat from competition will come from different sources in each case.

At the extreme, all businesses compete with all others for consumers' money; consumers have only a fixed amount to spend, and therefore a consumer who chooses to buy a more expensive house may at the same time be choosing not to have expensive holidays for the next two years. For most marketers this type of competition is not important, since there are usually far more immediate competitors to deal with. This would become an issue only if the company were in a monopolistic (or at least a dominant) position and could afford to encourage the overall market to increase.

Competitors can therefore be either firms supplying similar products or firms competing for the consumer's hard-earned money, but either way marketers need to provide a product that meets consumers' needs better than the products offered by the competition.

Table 2.3 shows the different types of competitive structure. In practice, most marketers are faced with monopolistic competition, where each company is trying to establish a big enough market share to control the market, but has no real prospect of becoming the sole supplier for the product category. The largest firm in such a market may find it more worthwhile to seek to increase the total market for the product category than to try for a bigger share of the existing market. This approach has the added advantage that it will not attract the attention of the government monopoly regulators.

Michael Porter's Five Forces model offers a useful approach to competitor analysis.[6] The five forces are as follows:

1. *The bargaining power of suppliers*: the greater this is, the stronger the competitive pressures.
2. *The bargaining power of customers*: again, the stronger this is, the more competitive the environment.

TABLE 2.3 Competitive structures

Type of competitive structure	Explanation	Examples
Perfect competition	A large number of suppliers, no one of which is powerful enough to influence the supply level overall. Homogeneous products. Easy entry to the market. Everybody in the market (both suppliers and consumers) has full knowledge of what everybody else is doing. There are few examples, and although economists sometimes use the perfect competition model for purposes of discussion, marketers will be very unlikely to be operating within this environment.	Unregulated agricultural markets. The international money markets.
Monopolistic competition	A situation where one major supplier has obtained a large share of the market by the use of a differentiated marketing approach, but other competitors can still enter and try to carve out their own share of the market.	Coca-Cola and PepsiCo have a major share of the soft drinks industry, but other firms are not prevented from entering the market.
Oligopoly	A few companies control the market almost entirely. Typically this happens when costs of entry to the market are high; very often the size of the market is not great enough to repay the capital cost of entry for a new firm. Oligopolies are often investigated by government monopoly regulators, who exist to ensure that large firms do not abuse their power.	Commercial aircraft manufacture. The detergent industry. Oil extraction and refining.
Monopoly	Monopolies exist when a single firm has a product with no close substitutes. In practice, this situation is almost as rare as perfect competition; the few examples still permitted are the so-called 'natural monopolies' which would clearly not be efficient if effort were duplicated.	Electricity supply grids. Some countries' national rail networks.

3 *The threat of new entrants.*

4 *The threat of substitute products and services.* This threat is often not seen until it is too late.

5 *The rivalry among current competitors.*

The main strength of Porter's model is that it broadens the concept of competition and enables marketers to look at the wider picture. Correct identification of competitors is essential; in simple terms, a firm's competitors are any firm that seeks to meet a similar need. This definition may be hard to apply in practice.

Customers

Customers may change their needs, or may even disappear altogether. Some years ago, the American company Johnson & Johnson became aware that much larger quantities of its baby shampoo and talcum powder were being sold than could possibly be accounted for by the number of babies in the country. Research discovered that many adults were using the products on themselves, so Johnson's was able to run a major campaign with the theme 'Are you still a Johnson's baby?' A new category of customer had become apparent, and the company was able to respond to this and capitalise on the changed environment. Clearly customers' needs are of paramount importance to marketers, and it is essential that new segments can be identified easily and accurately; however, it is also important to recognise that some segments may be disappearing, and to know when to switch the marketing effort to more lucrative segments.

Suppliers

Suppliers also form part of the micro-environment since they impact closely on the company. At first sight, suppliers would appear to be outside the scope of the marketing department, but in fact the firm relies heavily on the goodwill of its suppliers, and a good public relations exercise will always try to involve suppliers. A supplier can easily cause an adverse effect within a firm by supplying shoddy goods, or failing to meet delivery dates, and this will inevitably impact on the firm's customers. This is of greater importance for some firms than for others (retailers will be more concerned about suppliers than will government offices, for example) but most organisations need to monitor their suppliers and ensure that they are providing appropriate goods.

Current thinking in purchasing and supply is that the relationship between suppliers and their customers should be a close one, with frequent visits to each other's premises and a high level of information exchange. This is encompassed within the **logistics** approach to supply, in which the firm is seen as a link in a system for providing the right goods and services in the right place at the right time; the system as a whole takes raw materials and moves and transforms them into goods that consumers need. This philosophy relies on the supplier and purchaser integrating their activities and developing a mutual understanding of each other's problems.

Intermediaries

Intermediaries are the retailers, wholesalers, agents and others who distribute the firm's goods. Relationships with these intermediaries need to be good if the firm is to succeed in getting its goods to the final consumer successfully (this is part of the logistics approach). Intermediaries may also include marketing services providers such as research agencies, advertising agencies, distribution companies providing transport and warehousing, and exhibition organisers – in fact, any individuals or organisations that stand between the company and the consumer and help in getting the goods out. These relationships are, of course, of great importance to marketers, but intermediaries have their own businesses to run and are working to their own agendas. As with suppliers, it pays dividends to establish good relationships with intermediaries, mainly by sharing information and by maintaining good communication links (see Chapter 8).

Publics

Finally, some of the firm's **publics** form part of the micro-environment. 'Publics' is a generic term encompassing all the groups that have actual or potential impact on the company. The range of publics can include financial publics, local publics, governmental publics, media publics, citizen action publics and many others. The marketing activity concerned with these publics is called (not surprisingly) public relations; there is more on this in Chapter 9.

Financial publics might include the banks and shareholders who control the firm's finances, and who can pressure the firm to behave in particular ways. These pressures can be strong, and can even threaten the firm's existence; firms are often compelled by their financial publics to do things they would otherwise prefer not to. It is to address this problem that glossy company reports are produced for shareholders, and positive information about the company is issued to banks and others.

Local publics consist mainly of the firm's neighbours. These local organisations and individuals may well pressure the company to take local actions, for example clean up pollution or sponsor local charities. Obtaining the goodwill of the local public will, of course, make it much easier for the company to live harmoniously with its neighbours and will reduce short-term local difficulties. For example, Body Shop expects its franchisees to participate in projects that will help the local community, whether by supervising a play area or by raising funds for a local charity. Employees participate in these projects on company time; the activities improve the image of the company and generate positive feelings about the store among local residents. There is a spin-off for the firm's staff, who feel that they are working for a caring company; Body Shop employees tend to be very positive about their employer.

Each of the elements in the micro-environment is small enough that the organisation at the centre should have influence over most of them, and be able to react effectively to the remainder.

The macro-environment

The macro-environment includes the major forces that act not only on the firm itself, but also on its competitors and on elements in the micro-environment. The macro-environment tends to be harder to influence than does the micro-environment, but this does not mean that firms must simply remain passive; the inability to control does not imply an inability to influence. Often the macro-environment can be influenced by good public relations activities (see Chapter 9).

The main elements of the macro-environment are:

- demographic factors;
- economic factors;
- political factors;
- legal factors;
- socio-cultural factors;
- ecological and geographical factors;
- technological factors.

Demographic factors

Demographics is the study of population factors such as the proportion of the population who are of a given race, gender, location or occupation, and also of such general factors as population density, size of population and location. Demographic changes can have major effects on companies: the declining birth rate in most Western countries has an obvious effect on sales of baby products, but will eventually have an effect on the provision of state pensions as the retired have to be supported by an ever-shrinking number of people of working age.[5] Likewise, changes in the ethnic composition of cities, or in the population concentration (with few people living in the city centres of large cities) cause changes in the demand for local services and retailers, and (more subtly) changes in the type of goods and services demanded. There is more on this in Chapter 3.

Economic factors

Economic factors encompass such areas as the boom/bust cycle, and the growth in unemployment in some parts of the country as a result of the closing of traditional industries. Macro-economic factors deal with the management of demand in the economy; the main mechanisms governments use for this are interest rate controls, taxation policy and government expenditure. If the government increases expenditure (or reduces taxation), there will be more money in the economy and demand will rise; if taxation is increased (or expenditure cut), there will be less money for consumers to spend, so demand will shrink. Rises in interest rates tend to reduce demand, as home loans become more expensive and credit card charges rise.

Micro-economic factors are to do with the way people spend their incomes. As incomes have risen over the past 40 years or so, the average standard of living has risen, and spending patterns have altered drastically. The proportion of income spent on food and housing has fallen,[8] whereas the proportion spent on entertainment and clothing has risen. Information on the economy is widely publicised, and marketers make use of this information to predict what is likely to happen to their customers and to demand for their products.

Political factors

Political factors often impact on business: recent examples are the worldwide movement towards privatisation of former government-owned utilities and businesses, and the shift away from protection of workers' rights. Firms need to be able to respond to the prevailing political climate, and adjust the marketing policy accordingly. For example, British Telecom, Deutsche Telekom and Telstra of Australia have all had to make major readjustments to their marketing approaches since being privatised, and in particular since seeing an upswing in competitive levels. Almost all the firms' activities have been affected, from cutting the lead time between ordering and obtaining a new telephone, through to price competition in response to competitors' cut-price long-distance and international calls. British Telecom was the UK's fifth biggest spender on advertising during 2003.[9]

Legal factors

Legal factors follow on from political factors, in that governments often pass laws which affect business. For example, Table 2.4 shows some of the legislation on marketing issues currently in force in various countries.

TABLE 2.4 Examples of legislation affecting marketing

Country	Legislation
France	Alcohol advertising on TV is illegal, as is advertising of retail stores.
UK	The voluntary ban on spirits advertising on TV has now been lifted, but in common with the rest of the EU tobacco advertising on TV is banned.
Belgium	Recent rulings allow the British Office of Fair Trading to prosecute Belgian companies which send misleading mail shots to British companies or consumers.
Germany	Advertising for war toys and games of chance are forbidden.[10]
Japan	The price of rice is state-controlled; such price restrictions are common in many countries.

Sometimes judges decide cases in a way that re-interprets legislation, however, and this in itself can affect the business position. A further complication within Europe arises as a result of EU legislation, which takes precedence over national law, and which can seriously affect the way firms do business in Europe.

Case law and EU law are not dependent on the politics of the national governments, and are therefore less easy to predict. Clearly businesses must stay within the law, but it is increasingly difficult to be sure what the law says, and to know what changes in the law might be imminent.

Socio-cultural factors

Socio-cultural factors are those areas that involve the shared beliefs and attitudes of the population. People learn to behave in particular ways as a result of feedback from the rest of society; behaviour and attitudes that are regarded as inappropriate or rude are quickly modified, and also people develop expectations about how other people should behave. In the marketing context, people come to believe (for example) that shop assistants should be polite and helpful, that fast-food restaurants should be brightly lit and clean, that shops should have advertised items in stock. These beliefs are not laws of nature, but merely a consensus view of what *should* happen. There have certainly been many times (and many countries) where these standards have not applied.

These prevailing beliefs and attitudes change over a period of time owing to changes in the world environment, changes in ethnic mix and changes in technology. These changes usually happen over fairly long periods of time. Since 1970 in most Western countries there has been a development towards a more diverse, individualistic society; a large increase in the number of couples living together without being married; and a marked increase in the acceptance (and frequency) of single-parent families.[11]

Cultural changes over the same period include a major change in eating habits due to an increase in tourism and world travel, and greater globalisation of food markets.[12]

A very few cultural changes come about as the result of marketing activities: a recent example in the UK is the gradual replacement of Guy Fawkes night (at least as a family occasion) with Hallowe'en, an American import which has children dressing up in costumes and going from house to house 'trick or treat-ing.' Part of the thrust for this change has come about because Guy Fawkes celebrations involve letting off fireworks, which is a dangerous activity for amateurs, but much of the change has been driven by a desire by marketers to sell costumes, and by the influx of US-made films and TV programmes which show Hallowe'en celebrations.

Ecological and geographical factors

Ecological and geographical factors have come to the forefront of thinking in the past fifteen years or so. The increasing scarcity of raw materials, the problems of disposing of waste materials, and the difficulty of finding appropriate locations for industrial complexes (particularly those with a major environmental impact) are all factors that are seriously affecting the business decision-making framework (see Chapter 12). In a marketing context, firms are having to take account of public views on these issues and are often subjected to pressure from organised groups as well as individuals. Often the most effective way to deal with these issues is to begin by consulting the pressure groups concerned, so that disagreements can be resolved before the company has committed too many resources (see Chapter 9); firms adopting the societal marketing concept (see Chapter 1) would do this as a matter of course.

Technological factors

Technological advances in recent years have been rapid, and have affected almost all areas of life. Whole new industries have appeared: for example, satellite TV stations, cable networks, the Internet, CD recordings and virtual reality, and computer-aided design systems. All of these industries were unknown even twenty years ago. It seems likely that technological change will continue to increase, and that more new industries will appear in future. The corollary, of course, is that some old industries will disappear, or at the very least will face competition from entirely unexpected directions. Identifying these trends in advance is extremely difficult, but not impossible. Chapter 12 contains more on Internet marketing, and the impact of information technology.

The macro-environment also contains the remainder of the organisation's publics.

- *Governmental publics* are the local, national and international agencies that restrict the company's activities by passing legislation, setting interest rates, and fixing exchange rates. Governmental publics can be influenced by lobbying and by trade associations.
- *Media publics*: Press, television, and radio services carry news, features and advertising that can aid the firm's marketing, or conversely can damage a firm's reputation. Public relations departments go to great lengths to ensure that positive images of the firm are conveyed to (and by) the media publics. For example, a company might issue a press release to publicise its sponsorship of a major sporting event. This could generate positive responses from the public, and a positive image of the company when the sporting event is broadcast.
- *Citizen action publics* are the pressure groups such as Greenpeace or consumers' rights groups who lobby manufacturers and others in order to improve life for the public at large. Some pressure groups are informally organised; recent years have seen an upsurge in local pressure groups and protesters.

THE INTERNAL ENVIRONMENT

Internal publics are the employees of the company. Although employees are part of the internal environment rather than the external environment, activities directed at the external environment will often impinge on employee attitudes; likewise employee attitudes frequently impinge on the external publics. Sometimes employees convey a negative image of the organisation they work for, and this is bound to have an effect on the perceptions of the wider public.

The organisation's internal environment is a microcosm of the external environment. All organisations have employees; they will develop a corporate culture with its own language, customs, traditions and hierarchy. Sub-groups and individuals within the firm will have political agendas; pressure groups form; and the organisation has its own laws and regulations.

From the viewpoint of a marketer, the internal environment is as important as the external one, since the organisational culture, rules, hierarchy and traditions will inevitably be a major component of the organisation's public face. The members of the organisation can give a positive or negative image of the firm after they leave work for the day and interact with their families and friends, and even while in work they will usually come into contact with some of the firm's external publics. Since the members of those external publics will regard such communications as being authoritative, the effect is likely to be stronger than anything the marketing department can produce in terms of paid communications. In other words, if the company's staff speak badly about the company to outsiders, the outsiders are far more likely to believe those comments than to believe the company's promotional campaigns.

The days are long gone when the loyalty of staff could be commanded, and giving orders was all that was necessary to ensure obedience. Employees expect to have a degree of autonomy in their daily tasks, and do not feel any particular obligation towards an employer simply by reason of being employed. The employees of the organisation therefore constitute a market in their own right; the firm needs their loyalty and commitment, in exchange for which the staff are offered pay and security. Internal marketing is the process of ensuring (as far as possible) that employees know and understand the firm's strategic policies, and should feel that putting these policies into practice will be in their own best interests.

There is more on this topic (together with some techniques for dealing with the internal environments) in Chapter 9.

CASE STUDY 2: THE AUSTRALIAN TELECOMMUNICATIONS MARKET

In 1901, the newly created Commonwealth of Australia established the Postmaster-General's Department to handle all post and telephone within this vast country. At that time, telephone systems were regarded as a natural monopoly, and in many countries the systems were government-owned and operated. In 1991, though, the telephone system was hived off as a separate company, trading as Telstra, but still wholly owned by the Australian government.

In common with most other industrialised countries, Australian government thinking underwent some radical changes during the early 1990s. Most governments around this time were looking for ways of liberalising their nationalised industries – in many cases governments also saw the opportunity to generate some income by selling off nationalised industries to private investors. Greater competition and the action of market forces were seen as the way forward, and even the former so-called 'natural monopolies' such as railways, telephone systems and electricity generation were seen as targets for the new philosophy.

In 1992, the Australian public were suddenly confronted with a new alternative to the nationalised telephone system. Optus, a new telecom company, entered the market. At first, Optus met with opposition from some quarters: it was only 50% Australian-owned, a fact which the fiercely patriotic Australian public found hard to swallow. The company ran a series of aggressive TV adverts in which executives from the company emphasised that the employees were Australian, much of the funding was Australian, and the profits were being re-invested in Australia. The company also offered some extremely good deals for subscribers, many of which were especially relevant to Australians (for example, cheap off-peak international calls – most Australians have relatives in the United States or in Europe, and 7.3 million Australians were either born outside Australia, or their parents were). Arch-rival Telstra (the former nationalised network) responded with similar deals, and for a while the satellites and telephone lines of the world were filled with Australian accents.

In 1997, Australian telecommunications was opened up to full competition from any source. At this point, the government sold off 33.3% of Telstra to the public, followed by a further 16.6% in 1999. The government still holds 50.1% of the company, and is currently still required by law to do so – although clearly a change in the law would not be difficult to arrange. Meanwhile, in 2001 Optus was taken over by SingTel, the Singapore-based telecommunications company.

1997 saw a flurry of legislation aimed at controlling telecommunications. Some of these are as follows:

- Telecommunications (Universal Service Levy) Act 1997 covers taxation of telecommunications services.
- Telecommunications (Carrier Licence Charges) Act 1997 covers the licensing of operators.
- Telecommunications (Numbering Charges) Act 1997 covers the transfer of numbers from one provider to another.
- Telecommunications (Carrier Licence Fees) Termination Act 1997 changes the ways in which licence fees are charged.

The end result of this increase in competition is that huge amounts of money have been invested in the Australian telephone infrastructure. Optus alone has invested more than A$7 billion in new cable links, undersea cables, satellite and mobile telephone links: the result of this is that it now has one-third of the Australian market for mobile telephones, and around two-fifths of the landline business. The other result is that far more Australians are connected by telephone, both landline and mobile phone: around 70% have mobile phones (no small feat in a country where some people live a hundred miles from their nearest neighbour), and Australia has 80 long-distance providers, 600 Internet service providers, and four mobile telephone operators.

The next major challenge facing Australian telecom companies is the introduction of broadband. Broadband is a cable-based system which allows much faster transfer of data, allowing each household to receive its television, radio, telephone and Internet connections through one cable. Currently, Australia ranks far behind most industrialised countries in its adoption of broadband – mainly because (according to some commentators) Telstra still retains a stranglehold on Australian telecoms, and will continue to do so as long as the government owns 50.1% of it and makes the rules for the competing companies. Naturally, the government denies this and points to the massive investments by Telstra's competitors, and continuing pressure on Telstra's revenues. Frustration over broadband (or the lack of it) has prompted the State government of New South Wales to set up its own system, using fibre optic systems originally installed for the State railway network. On a smaller scale, the city of Mildura (with a population of only 50 000) has brought in a local cable operator to supply broadband.

Of course, no one can tell what the future holds. The government is expected to sell off more of its shares in Telstra (particularly in the event of needing a cash injection), and then the shareholders will undoubtedly take control. Further competition may enter from overseas. New technology may make broadband obsolete. New legislation may be forced through to open up the broadband provision. Whatever happens, it looks like turbulent times ahead for Australian telecom providers.

Questions

1 What is the effect of technological change on Australian telecommunications?

2 Why might the Australian government be forced to change the legislation?

3 What might be the effect on Optus of a sell-off of Telstra?

4 Why might Telstra benefit from delaying the introduction of broadband?

5 How might Telstra and Optus protect themselves from foreign competition?

SUMMARY

The environment within which the marketing department is operating consists of both internal and external factors. Internal factors are what happens within the organisation; external factors are those operating outside the firm, and consist of the micro-environment and the macro-environment. Macro-environmental factors are largely uncontrollable by individual firms; in fact, it is difficult for marketers to have any influence on them.

While it may be possible for the largest firms to influence the macro-environment by lobbying Parliament, or even by affecting the national culture directly, small and medium-sized firms cannot alone hope to make sufficient impact on the external environment to make any major changes. Therefore these marketers need to learn to work with, or around, the macro-environmental factors they find, rather than seek to make changes; the only alternative might be to join a powerful trade association.

Since the marketing environment has profound effects on the organisation, marketing strategy begins with two main activities: analysis of the environment (perhaps by STEP analysis) to see what threats and opportunities exist, and analysis of the firm's position within that environment and within itself (perhaps by SWOT analysis).

Here are the key points from this chapter:

- Businesses and other organisations do not operate in a vacuum.
- The micro-environment is easier to influence than the macro-environment, but both are impossible to control.
- The business should be defined from the customer's viewpoint; this will help identify a broader range of competitors.
- Customers should be grouped into segments so that scarce resources can be targeted to the most profitable areas (see Chapter 4).
- Close relationships with suppliers and intermediaries will be helpful in influencing the environment.
- Public relations is about creating favourable impressions with all the company's publics.
- Case law and EU law can both affect businesses, and are harder to predict since they are independent of national government.
- The socio-cultural environment changes, but slowly.
- Technology changes rapidly and will continue to do so; this both creates and destroys industries.
- Internal publics need special attention, since they are the 'front line' of the company's relationships with its environment.

CHAPTER QUESTIONS

1 Why is the external environment impossible to control?

2 What can SWOT analysis tell a firm about its environment?

3 Given that businesses are made up of people, how is it that the same people are included as part of the firm's internal environment?

4 What are the most important factors making up the micro-environment?

5 What are the main problems faced when dealing with the macro-environment?

MULTI-CHOICE QUESTIONS

1 Factors that are common to society as a whole are called:

(A) The micro-environment.
(B) The external environment.
(C) The macro-environment.

2 STEP stands for:

(A) Strengths, Technical ability, Energy and Power.
(B) Style, Trying, Effort and Presentation.
(C) Socio-cultural, Technological, Economic and Political.

3 Which of the following is *not* part of the micro-environment?

(A) Government economic policy.
(B) Competitors' activity.
(C) Customers' preferences.

4 Firms that distribute the firm's goods are called:

(A) Customers.
(B) Suppliers.
(C) Intermediaries.

5 The study of population factors is called:

(A) Economics.
(B) Demographics.
(C) Sociology.

6 Employees of the firm are considered to be:

(A) Part of the macro-environment.
(B) The internal publics.
(C) Part of the socio-economic environment.

7 Grouping customers with similar needs is called:

(A) Segmentation.
(B) Targeting.
(C) Marketing.

8 A manager who regards environmental factors as uncontrollable is:

(A) Proactive.
(B) Reactive.
(C) Realistic.

9 Monopolistic competition arises when:
   (A) One company has the whole of a market.
   (B) Two or three companies control the market.
   (C) One company has a large market share.

10 A situation where only a few companies have almost total control of the market is called:
   (A) Perfect competition.
   (B) Oligopoly.
   (C) Monopoly.

GLOSSARY

Demographics The study of population structure.

External environment Those cultural, social, economic, legal and competitive factors that are outside the organisation.

Internal environment Those cultural, social and economic factors that are contained within the organisation itself.

Internal publics Those groups within the firm to whom the firm needs to communicate its objectives and policies.

Logistics The process of strategically managing the movement and storage of materials, parts and finished goods from suppliers, through the firm, and on to consumers.

Macro-environment Those environmental factors that are common to all firms and that can be influenced, but not controlled.

Micro-environment Environmental factors that are close to the firm and to an extent controllable by the firm.

Monopolistic competition A condition where one supplier has a significant market share obtained by differentiating its product from those of its competitors.

Monopoly A condition where one firm produces a product that has no close substitutes.

Oligopoly A condition where the market is controlled by a small group of suppliers.

Perfect competition A condition where the market contains a large number of suppliers, no one of which can significantly influence price or supply.

Proactive management A management approach that seeks to anticipate problems and act before they arise.

Publics Any group that has actual or potential impact on the organisation's activities.

Reactive management An approach that involves responding to outside and inside influences as they arise.

Segmentation The process of categorising consumers into groups with similar needs (see Chapter 4).

REFERENCES

1. Kotler, P.: 'Megamarketing', *Harvard Business Review* (March–April 1986), pp. 117–24.
2. Mercer, D.: *Marketing* (Oxford, Blackwell Books, 1992), p. 141.
3. Bell, D.: *The Coming of Post-industrial Society: A Venture in Social Forecasting* (London, Heinemann, 1974).
4. Blythe, J.W.D. : 'Europe after 2012', *Journal of Marketing Management*, **9** (1) (1993), pp. 79–86.
5. de Jouvenal, H.: *Europe's Ageing Population*: *Trends and Challenges to 2025* (London, Butterworth, 1989).
6. Porter, M.E.: 'How competitive forces shape strategy', *Harvard Business Review*, **57** (2) (1990), pp. 137–45.
7. United Nations: *Trends in Europe and North America: The Statistical Yearbook of the Economic Commission for Europe*, 2003.
8. Office for National Statistics: *Household Expenditure Survey*, 2003.
9. *Marketing Pocket Book* (Henley on Thames, Advertising Association, 2004).
10. Chee, H. and Harris, R.: *Global Marketing Strategy* (London, Financial Times Pitman, 1988), p. 525.
11. European Commission: *The Social Situation in the European Union 2001* (Luxembourg, Office for Official Publications of the European Communities, 2001), pp. 201–17.
12. Maucher, H.O.: 'The impact of the single European market on regional product and price differentiation – the example of the European food industry', in C. Halliburton and R. Hunerberg (eds) *European Marketing; Readings and Cases* (Wokingham, Addison Wesley, 1993).