

Lecture 10

Business environment – Macro environment

Macro environment

It may broadly be classified into (1) Economic environment, (2) Demographic environment, (3) Socio-cultural environment, (4) Technological environment (5) Political environment, and (6) Legal environment

1. Economic Environment

Economic environment is the most significant component of the marketing environment. It affects the success of a firm. The economic environmental forces can be studied under three broad categories: (a) General economic conditions (b) Industrial conditions, and (c) State of supply of resources for production.

a. General Economic Conditions

General economic conditions in a country are influenced by various factors. The following factors are important.

- i) Agricultural trends
- ii) Industrial output trends
- iii) Per capita income trends
- iv) Pattern of income distribution
- v) Pattern of savings and expenditures
- vi) Price levels
- vii) Employment trends
- viii) Impact of government policies and
- ix) Economic systems

b) Industrial Conditions

Economic environment of a country is influenced by the prevalent industrial conditions as well as industrial policies of a country. A Manager needs to pay attention to the following aspects of the industrial conditions.

- i) Market growth of the industry
- ii) Demand patterns of the industry, and

- iii) Its stage in product life cycle

c) State of Supply of Resources for Production

Supply of resources required for production determines inputs which are available for production. These are the most important resources required for production.

- i) Land
- ii) Labour
- iii) Capital
- iv) Machinery and equipment, and
- v) Managers

The above-stated environmental forces determine the economic environment of a country.

To sum up, economic environment describes the overall economic situation in country and helps in analysing GNP per capita, rate of economic growth, inflation rate, interest rates, unemployment problems, etc. Therefore it is necessary to examine carefully the economic environment of the country.

2. Demographic environment

Demographic environment explains the pattern and changes in the society based on age, sex, educational background, marital status, family size, family life style, religion, nationality, etc. Demographic environment is useful for marketing decisions, market segmentation and formulation of marketing strategies. Knowledge of the demographic environment is very important to a marketer for performance of his functions. People constitute the market and market depends on customers. Demography provides quantitative as well as qualitative aspects of population.

3. Socio-cultural environment

The social environment of a nation determines the value system of the society which in turn affects the marketing of products. Social factors are caste. Customs, conventions, cultural heritage and respect for seniority, etc. For example, the nature of goods and services in demand

depends upon people's attitudes, customs, social values, etc. In India, social environment is continuously changing.

Changing social values and increased acceptance of improved birth control methods have resulted in a rise in the mean age of various countries. The social environment has the following dimensions.

- Changes in people's lifestyles
- Concerns for social problems and
- Growth of consumerism

Culture influences every aspect of marketing. Marketing decisions are based on recognition of needs and wants of the customers, which is a function of customer's perceptions. These help in understanding of lifestyles and behaviour patterns as they have grown in the society's culture in which the individual has been groomed. Thus a person's perspective is generated, groomed and conditioned by culture.

4. Technological environment

Technological environment provides both opportunities and threats, and its impact is direct as well as indirect. Certain aspects to which a marketing planner should pay attention are;

- i) High expenditure on research and development
- ii) Concentration on product improvement and development
- iii) Unlimited innovations in technology
- iv) Accelerating pace of technological change and
- v) Greater emphasis upon the regulation of technological change

Advances in technology are difficult to predict. However, the manager should consider potential, technological development determined from resources committed by major industries or the government. Being in a market that is rapidly changing due to technological development, will require the manager to make careful short-term marketing decisions as well as being prepared with contingency plans given any new technological developments that may affect product or services.

5. Political environment

Political factors play a major role in shaping the environment in which business organizations operate. Thus a business organization has to attempt to study and analyse political environment. Such a study and analysis help in estimating risks opportunities and threats involved, and then adjusting their decisions and operations to anticipated changes.

To conclude, the various political factors that should be considered are;

- i) Role of private sector in the economy
- ii) Government procedures and changes in government policy
- iii) Type of government and stability in government
- iv) Role of small-scale industry in the economy and
- v) Role of service sector in the economy

6. Legal environment

Decisions are strongly affected by laws pertaining to competition, price setting, distribution arrangements, advertising, etc. It is necessary for a manager to understand the legal environment of the country and the jurisdiction of its courts. The following laws affecting business in India are important.

- 1) Indian Contract Act, 1872
- 2) Factories Act, 1948
- 3) Minimum Wages Act, 1948
- 4) Essential Commodities Act, 1955
- 5) Food Products Order
- 6) Securities contracts Regulation Act, 1956 (Now replaced by SEBI Act)
- 7) The Companies Act, 1956
- 8) Trade and Merchandise Marks Act, 1958
- 9) Monopolies and Restrictive Trade Practices Act, 1969
- 10) The Water (Prevention and Control of Pollution) Act, 1974
- 11) The Air (Prevention and Control of pollution) Act, 1981
- 12) Sick Industrial Companies (Special provision) act, 1985
- 13) Environment Protection Act, 1986

- 14) Consumer Protection Act, 1986
- 15) Securities and Exchange Board of India Act, 1992
- 16) Taxation laws covering Corporate tax, indirect taxes like Excise, Customs, Sales tax and Wealth tax)

Importance of Environment Analysis

The manager needs to be dynamic to effectively deal with the challenges of environment. The environment of business is not static. The some of the following benefits of environment scanning are as follows:

- It creates an increased general awareness of environmental changes on the part of management
- It guides with greater effectiveness in matters relating to Government
- It helps in marketing analysis
- It suggests improvements in diversification and resource allocation
- It helps firms to identify and capitalise upon opportunities rather than losing out to competitors
- It provides a base of objective qualitative information about the business environment that can subsequently be of value in designing the strategies.