Environmental Factors

In the present circumstance when dynamism is there in the market and choice and preferences of customers are changing giving customer value is little more difficult. Let us see the changes in the market and its environment, which plays a major role in forming the strategies.

Economic and Political change

- Slowing down of economic growth
- Continuing north-south divide between the rich and poor nations, the developed and underdeveloped accompanied by a growing recognition by the third world raw materials producers of the power they hold over the western, developed economies.
- Dramatic changes in east west relationship
- Trading might become restricted between the trading blocks and countries outside them

MyCoolGuru TM
Share . Care . Grow

Social and Cultural change

- Increased questioning of the industrial profit motive as the main objective for commercial enterprise
- More recognition of stakeholders
- Increased concern for physical environment
- Greater concern for physical health
- With generally better standards of living life expectancy has increased
- Youth market has recently become more affluent and poses new opportunities for marketers
- Emergence of "Generation X" customers- the cynical, world-weary twenty-somethings who are hostile to business values and traditional advertising and branding and reject many conventional products offers.

- Increase in single person households
- Increase in unemployment but increase in women employment

Technological change

- Invention of microprocessor
- Data warehouses proving very useful for the companies
- Technology moving very fast and products are being substituted by better alternatives overnight
- Fast emergence of internet

Marketing changes

- Markets are becoming global and no companies big or small is exempt from global competition
- Existence of distinct market segments are becoming clearer
- Increased level of competition both domestic and international.
- Markets are becoming more fragmented and consumers are more inclined to show their personality
- Increasingly sophisticated customers
- The development of network organisation consisting of a group of companies

My Cool Guru TM
Share . Care . Grow

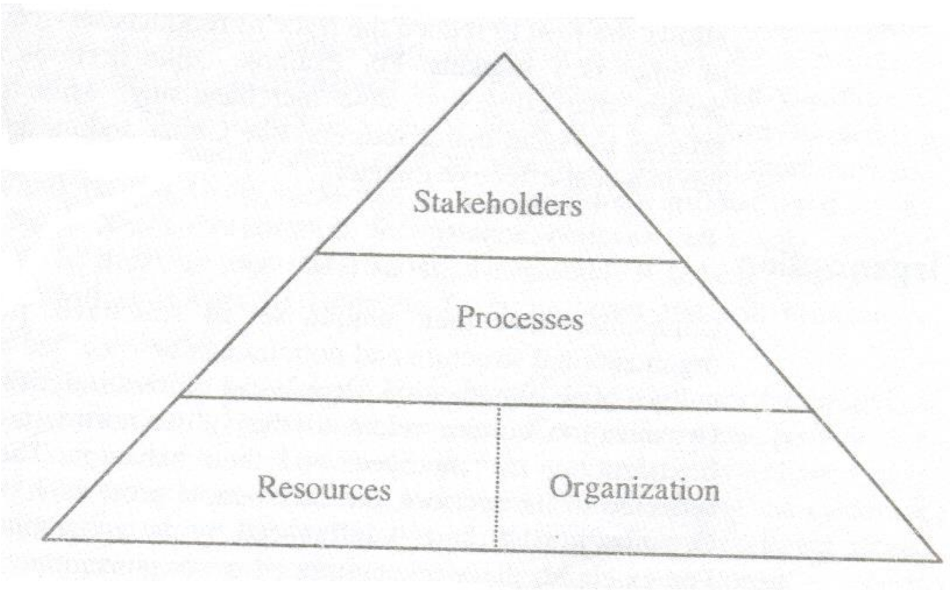
The impact of change:

- In many industries the days of fast growth are forever
- Change creates opportunities for innovative organisation and threats for those who hold it back.
- It is probable that there is redefinition of leisure and work

- The speed of change in environment is accelerating leading to greater complexity and adding turbulence or discontinuity
- Successful strategies erode overtime

A company which aims at achieving its objectives, making profits and outperforming its competitors in the long run must satisfy a few of its components first. Unless there is a balance/equilibrium in the internal environment, which coordinates perfectly with the external factors, the firm cannot exist for long. According to Arthur D Little, the factors that influence the performance of business are stakeholders, processes, resources and organisation as seen in the following figure.

Factors that influence the performance of business



Stakeholders

The stakeholders of a business firm consist of its shareholders, employees, suppliers, distributors and customers. A company must identify the needs of its stakeholders and then develop strategies to satisfy their needs and wants. It cannot survive in the long run, if it aims at satisfying only one group of stakeholders. If a company tries to satisfy only one group of stakeholders, conflicts may arise with the interest of other stakeholders. It can hamper the performance of the company. Therefore, the company must make efforts to satisfy the minimum requirements of each group, taking care not to violate the other group's trust and sense of belonging.

The stakeholders act like the spokes of a wheel of an organization. So, its prosperity depends on their collective efforts. For example, when a company satisfies its employees, their performance and productivity levels increase, and thus helps the firm to deliver quality products and services to its customers. Customer satisfaction brings repeat business and increases the profit volume. The higher the profit, the happier the shareholders, and they in turn invest more. And this is what leads to the prosperity of the firm.

Processes

A process is the way in which workflow takes place. Typically, the work is distributed to various departments on the basis of their functionality. However, coordination between various departments of an organisation is essential if its objectives are to be achieved. When there is conflict between the objectives of different functions of an organisation, it becomes difficult for it to achieve its goals. Each department or function will try to achieve its objectives at the cost of others. As a result, organisational objectives will become secondary and the overall performance of the organisation will severely suffer. The environment in the organisation also becomes political and non-conducive to performance. Therefore, organisations should design their work processes in such a way that these conflicts are minimised. They need to make an effort to see that interactions between various functions increase and they work together towards achieving organisational objectives.

Companies are investing heavily on streamlining their workflows and creating cross--functional teams for bringing about a desired change in processes, like new product development, customer attraction, retention and order fulfillment. With these efforts, the interaction and coordination between different departments also increases, and this helps the organisation achieve its goals.

Resources

A business firm needs resources like electric power, human resource, buildings, equipment, material, vehicles, water, etc., to carry out its day-to-day activities. These resources can be owned, leased or rented. Traditionally, it was believed that organisations should own the resources to have maximum control over them. However, the mindset of managers is charging fast due to the changing business environment and fast changing technology. Now, organisations believe that they should own only the resources that help them carry out their critical functions or utilise their expertise. All other functions or activities should be outsourced to organisations that have the competencies to carry them out. This will also help them optimise their cost structure and eliminate unnecessary flab from the organisations. For example, many companies are outsourcing their payroll and accounting functions to organisations that have expertise in managing them.

Organisation

Outsourcing offers cost saving, lower expenses and specialisation of products and services and help the company become more competitive. Reduction in expenditure allows the firm to reduce the price of products/services and compete in larger markets or enter new markets. For example, Nike nurtures its core competencies in shoe design, marketing and shoe merchandising, while outsourcing the manufacturing process to Asian manufacturers, like China, Indonesia, and Vietnam etc., who do a better job in a cost-effective manner.

Companies have their unique set of structures, policies and culture. While the organisational structure and policies can be specified easily, it is difficult to define the culture of an organisation. People can sense it only if they are part of the organisation. Organisation culture refers to the value, norms, assumption, etc., of an organisation, its employees and their behaviour. The culture of an organisation is reflected in its interiors, the way people greet each other, the way people work, etc. Organisational culture is influenced by the geographical location of an organisation. For example, the work culture of an organisation located in Japan would be very different from that of one located in Germany or the US.

Organisational culture is sometimes influenced by the personality of its leader/CEO. The style and persona of the leader influences the working habits of the employees. However, it is difficult to change the culture of an organisation. But when a change is brought or a new organisational strategy is implemented in an organisation, it is essential to bring in cultural changes for its successful implementation.

A firm needs to adapt to the changes in business environment. The geographical barriers between countries have now blurred. Therefore, companies are operating in a global market. When companies operate in different countries, understanding culture becomes more important for their success. For example, shaking the head from side to side, means 'yes', in

Bulgaria and Sri Lanka, whereas it is a sign of 'negation' in most parts of the world. Sometimes, when organisations are not able to understand cross-cultural changes, they fail miserably. For example, Ford Motor Company developed a low-cost truck for developing countries and named it "Fiera". The name caused a problem in Spain because Fiera means "terrible, cruel or ugly" in Spanish.

The top management of a company needs to foster such a culture so that every employee becomes an integral part of the organisational activities right from idea generation to the strategy formulation and implementation. If they are part of the strategic process, they ensure that the strategy becomes successful. According to Prof. Gary Hamel, creative ideas about strategies exist within the company. He emphasized that the senior management needs to identify and encourage idea generation. Ideas can be generated by employees who have a youthful perspective, new entrants in the industry and employees who are far away from the headquarters.

External Macro Environment

My Cool Guru ™
Share . Care . Grow

The external macro environment consists of all the outside institutions and forces that have an actual or potential interest or impact on the organisation's ability to achieve its objectives: competitive, economic, technological, political, legal, demographic, cultural, and ecosystem. These forces are completely non-controllable. These forces require a response in order to keep positive actions with the targeted markets. An organisation with an environmental management perspective takes aggressive actions to affect the forces in its marketing environment rather than simply watching and reacting to it.

Competitive Environment

Adopting the marketing concept means that an organisation must provide greater customer value than its competitors. It is definitely important that you understand your customer. But it is more important that you understand your customer better than your competitor. Being good is not good enough if a competitor is better. It is impossible for an organisation to develop strong competitive positioning strategies without a good understanding of its competitors and the strengths and weaknesses of the competitors.

Three levels of competition exist.

1. Direct competitors are firms competing for the same customers with the similar products (ex. grocery stores).

2. Competition exists between products that can be substituted for one another (ex. margarine for butter).

3. Competition exists among all organisations that compete for the consumer's purchasing power (ex. entertainment).

There are 4 types of competition:

- Pure competition: this type of competition is characterised by many firms all selling identical products, and no one firm is powerful (ex. FMCG sector).
- Monopolistic competition: this is characterised by a large number of firms selling slightly differentiated products (restaurants).
- Oligopoly: This has a small number of firms selling that can act collusively (ex. long distance telephone providers).
- Monopoly: This is a single firm selling in the market for which there is no close substitute (ex. railways).

My Cool Guru TM
Share . Care . Grow

Economic environment

The economic aspect of a nation has a major impact on the marketing strategies of the organisations. Because the economic environment consists of factors that affect consumer purchasing power and spending patterns. Depending on these two the marketing has to design the strategies. Economic factors include business cycles, inflation, unemployment, interest rates, savings pattern, debt, credit availability and income. Nations vary greatly in level and distribution of income and industrial structure. There are 4 types of economic structures

Subsistence economies: In this type of economy, the vast majorities of people engage in simple farming, consume most of their output and barter the rest for simple goods and services. Many African countries and in India some tribes engage in this type of economy, which offers very little opportunities for the marketers.

Raw material exporting economies: These economies are rich in some natural resources but poor in other economic respects. They earn by exporting these resources. Presently middle-east countries are prime examples of this type of economy.

Industrialising (developing) economies: These economies produce a considerable amount of products on their own. Hence instead of importing finished products, they mostly import raw materials, technology and high-end equipments. A small rich section and a growing middle class create excellent opportunity for the marketers. India is currently in this stage of economy.

Industrial (developed) economies: These economies produce most products with the help of indigenous high-level technology and export to each other and also to other types of economies in exchange of money or raw materials and semi finished materials through barter arrangement.

Changes in major economic variables have a significant impact on the marketplace. For example, income affects consumer spending which affects sales for organisations. According to Engel's Laws, as income rises, the percentage of income spent on food decreases, while the percentage spent on housing remains constant. People spend, save, invest and try to create personal wealth with differing amounts of money. How people deal with their money is important to marketers. Trends in the economic environment show an emphasis on global income distribution issues, low savings and high debt, and changing consumer-expenditure patterns. If you consider access to telephones, clothes washers, dryers, microwaves, etc., there is little visible difference between the poor and non-poor. Indeed, recent figures indicate that the affluent are shopping at discount stores, having adopted some of the shopping habits of those with less income.

MyCoolGuru™ Share . Care . Grow

Technological Environment

Technology is the knowledge of methods to perform certain tasks or solve problems pertaining to products and services. The basic elements of the technology continuum are formed fro the information on product design, production techniques, quality assurance measures, human resource development and management systems. Technology transfer covers several issues, which includes developing and marketing of technology, selection of technology, mechanism and process, economic, political and legal aspect, and government policies. The complexity of technology transfer depends on the nature of industry, the technical and commercial aspect involved. The technological environment refers to new technologies, which create new product and market opportunities. Technological developments are the most manageable uncontrollable force faced by marketers. Organisations need to be aware of following trends in technological environment:

1. Accelerating pace of technological change
2. Unlimited opportunities for innovation
3. R&D budgets
4. Increased regulation of technological change

The companies have to use new technologies in order to turn these advances into opportunities and a competitive edge. Also the companies must analyse the technological environment and the technology options available. It has to keep pace with the changing technology of the country in which it is operating because the technology of a country has an impact on the technology of the firm also. A through study by many companies have proved the fact that every organisations technology needs cannot be met solely through their own engineering and R&D. usually each technology requirement is subject to the make-or-buy decision and judicious mix of indigenous and imported technologies is used. Also the firm has to do a careful investigation of the rules and regulations of the government in regards to technology. Government may or may not support the use of modern technologies depending on the situations and the impact of use of the particular technology in question. On the other hand at the same time several levels of technologies are available in he market. A firm has to judiciously choose the most appropriate one. The factors that one should consider in the choice of technology are as follows:

- ✓ Product competitiveness and market potential
- ✓ Customer preferences
- ✓ Speed of introduction of new products and processes.
- ✓ Comparative study of technology gap between India and the rest of the world.
- ✓ Availability of technology for import in strategic areas
- ✓ Suitability of technology in the context of organisational culture

- ✓ Outflow of resources, foreign exchange etc.

Technology has a tremendous effect on life-styles, consumption patterns, and the economy. Advances in technology can start new industries, radically alter or destroy existing industries, and stimulate entirely separate markets. If you consider the evolution of typesetting, it has stated with manually typesetting and having passed stages like typewriter and DTP, the latest advancement is Voice Recognition Software (VRS) through you only need to speak before the computer and it will do the rest. The rapid rate at which technology changes has forced organisations to quickly adapt in terms of how they develop, price, distribute, and promote their products. If they do not do it, they will perish. Do you see any pager company now that has been the centre of attraction even 6-7 years ago?

But technology advancement posses some risks also for the firms. The natural disasters are being replaced by technological disasters. Advances in technology is increasing the complexity of systems, thereby increasing the uncertainty in predicting the untoward events. The main risk factors in complex systems are low-probability and high-security events. Firms cannot always be protected from he exposure to risks by state-of-the-art security and recognition and integration of organizational factors. Signatures can be forged and encrypting devices can be broken into. It is a well-known fact that electronic fraud, credit card abuse, ATM thefts already exists. Today a robber can rob the bank without entering into the bank. Today devastating viruses are entering the system damaging huge databases. The new technology also has a significant influence on an individual's right to privacy. Data collected over a period of time may be used to trace the consumption and lifestyle behaviours of individuals, who may prefer to keep such information private.

Technological advancement is a continuous process and so is pollution. This is compounding the existing pollution problem. The pollution caused by technological advances is not always confined to a single nation. One good example of this is the Chernobyl nuclear power plant disaster in the former Soviet Union. This catastrophe polluted the Kiev River in Ukraine, the main water source for over 40 million people and left many agricultural lands of many countries unusable. Many other effects are still emerging.

Political Environment

The political environment includes governmental and special interest groups that influence and limit various organisations and individuals in a given society.

The term political environment connotes diverse happenings, such as civil difficulties, acts of terrorism against businesses (Kidnapping) and conflicts between countries in a particular region which may be a one-time occurrence like the war of India and China or perennial problems like India and Pakistan. Business is influenced by the political happening within the country and in national and international political activities. Today's organisations rely on a thorough review of the political environment before committing themselves to a new market in a foreign country. But political changes and upheavals may occur at any point of time after an international marketer has made a commitment and has established his business.

Political stability has been found to be one of the most crucial variables that companies consider when planning overseas venture. Unstable political activity subjects foreign businesses to risks such as violence, expropriation, and restriction of operations and restriction on repatriation of capital and remittances of profits.

Governments can be classified in two ways: Political System and Economic System.

Political System: knowledge of the different forms of government can help one appraise political climates. According to this system government can be Parliamentary (open) or Absolutist (Closed). The parliamentary form of government consults people from time to time for the purpose of learning their opinion and preferences. Absolutists dictate the regime and government policies without consulting the citizens.

My Cool Guru™
Share . Care . Grow

Government can also be classified on the bases of number of political parties that are represented in it:

- Two Party System where two strong parties take turn controlling the government, though there are several other parties.
- Multiparty system where there are several political parties, none of which is strong enough to get hold of the government.
- Single Part System where there is only one dominant party.
- Dominated One Party System where the dominant party does not allow any opposition and does not provide any alternative parties for the people to choose from.

According to the economic system the classification is concerned with the native of business ownership. There can be three types of systems

- Communism: this philosophy holds that all resources should be hold and shared by all people for the benefit of the society.

- Socialism: the degree of government control that occurs under socialism is somewhat less than under communism. The government in this case owns and operates the basic, major industries but allows private owner ship of small businesses.
- Capitalism: people motivated by private gains are allowed to produce goods and services for public consumption under competitive conditions. There is freedom of choice for both consumer and marketer.

Considering the political impact on business there can be three types of politics that a business may face. It can be Foreign Politics i.e. politics associated with local or host country. There can be Domestic Politics that exist in the company's home country. And finally International Politics, which refers to the interaction of the overall political environment factors of two or more countries.

Political environment has a major impact on the operation of the firms. The firms operate as per the economic policies and the industrial policies, which in turn depend on the political scenario and the ruling party. Also for the proper functioning of the firm the political stability is essential.

Factors, which contribute to the political instability, are:

- Social disorder caused by economic hardship, internal dissension, and insurgency and ideological, racial, and cultural differences.
- Attitude of nationals are also at times responsible for political instability when there is some inherent hostility towards some major problem.
- The changing attitudes of the host country towards foreigners also cause unrest.

Social and religious organisations, media and pressure groups are all part of political environment. Organisations hire lobbyists to influence legislation and run advocacy ads that state their point of view on public issues. Special interest groups have grown in number and power over the last three decades, putting more constraints on marketers. For instance, both plastic and jute industries are lobbying for mandatory cement and sugar packaging. The public expects organisations to be ethical and responsible. An example of response by marketers to special interests is green marketing, the use of recyclable or biodegradable packing materials as part of marketing strategy.

MyCoolGuru TM Share . Care . Grow

The advertisement of alcoholic liquor is prohibited in a number of countries including India. The statutory warning that "Cigarette smoking is injurious to health" is a must in advertisement as well as on the packaging of cigarettes. Similarly baby food advertisements must necessarily inform the potential buyers that breast milk is the best for an infant.

Legal Environment

Along with the political environment a business has to operate within the legal environment also.

The term legal environment refers to laws that govern the setting up and operation of the business. A domestic firm must follow the laws and customs of its home country. Organisations must operate within a framework of governmental regulation and legislation. Government relationships with organisations encompass subsidies, tariffs, import quotas, and deregulation of industries. For an international business the task is more complex: as it must obey not only the laws of its home country but also of all the host countries it operates in. diverse legal system can pose significant challenges for business. An understanding of the legal environment in the host country and knowledge of the international business market is therefore necessary for those involved in any business. The legislation regulating the business is ever increasing. Over the past few years a number of laws concerning business and industry have placed themselves in the statute books. Following are the areas of business legislation:

- Corporate affairs
- Consumer protection
- Employee protection
- Sectoral protection
- Corporate protection
- Protection of society
- Regulation on product, price and distribution
- Controls on trade practices

- Protecting national firms

Every business has to understand the legislation of their country and adapt to it but the multinational corporations have to understand and adapt to the legislation of all those countries in which they are operating. Most effective are the marketing strategies if the MNCs start the understanding of these legislation even before entering a country and take all the decisions starting from whether to operate in that particular country or not.

For understanding the varying legal philosophies among countries, legal systems can be categorised as common law and statute law. Common law also called British Law is followed by some 25 countries including India, U.K., U.S. A., Canada etc. this legal system depends heavily on precedents and conventions. These are tradition oriented and judgements are based on pervious court decisions. Status Law, also known as code or civil law, guide countries by embodying the main rules of the law in legislative codes. Hence there is strict and literal interpretation of the law under this system.

As with political environments, legal environments can be domestic, foreign or international.

- ✓ In domestic legal environment the laws of the home country govern the businessperson which, can effect both imports and exports of products like narcotics, dangerous drugs, toxic substances etc.
- ✓ Foreign legal environment: once a product crosses a national border, it becomes subject to an entirely different set of laws and a new enforcement system. The product and foreign market operations come under the purview of the foreign law and enforcement system, the marketer has to comply with the requirements of the foreign law.
- ✓ International Legal Environment: the international legal environment is a combination of various legal systems and laws of various nations put together.

Intellectual property Rights are another important aspect of legal environment, which needs to be understood by any business. Intellectual property refers to ideas that are translated into tangible products, writings and so on and that are protected by the state for a limited period of time from “unauthorized commercial exploitation”. It can be in terms of patent laws, which can be followed by some countries as the first-to-file principle and by others as first-to-invent principle. It can also be in form of a trademark, which is a word, symbol or device that identifies the source of goods and may serve as an index of quality. So it is used primarily to differentiate or distinguish a product or service from another. It can be copyrights, which protect original literary, dramatic, musical, artistic and certain other intellectual works.

Laws play a role regarding entry into foreign markets takes several forms including tariffs, anti-dumping laws, export or import licensing, investment regulations, legal incentives and restrictive trading laws. A tariff is a tax that a government levies on exports and imports. With a view to protecting local industries most governments often pass laws against dumping, as it can be a problem for developed and developing countries alike. Many countries have laws that call for exporters and importers to obtain licenses before engaging in trade across national boundaries. Many countries have laws and regulations governing foreign investments. This is to limit the influence of multinational corporations and to achieve a pattern of foreign investment that contributes most effectively to the realization of the host country's economic objectives. In most developing countries investments are designed to attract foreign investment. In few cases the regulation of investment through incentives schemes is still the only significant regulation of foreign investment. Restrictive trading laws are usually referred to as non-tariff barriers to international trade. Many governments adopt such measures as to restrict imports or artificially stimulate exports. The different types of non-tariff barriers are: Customs and entry procedures, standards, specific limitations, import changes and other measures such as voluntary export restraints, orderly marketing agreement etc.

Forms of business organisation: we will see the different forms of business organisation. We need to understand these because there are many legal aspects to setting up of any firm depending on its type.

- ✓ Proprietary concern or sole trader: The simplest and oldest form of business organisation is the individual or sole proprietorship. It is a one-man organisation owned and operated by a single individual who decides policies and holds title to all its activities. The liability for the sole trader for the obligations of the enterprise is unlimited, his personal assets may be seized to repay the debts of the business if capital invested in the enterprise is not sufficient to meet the liabilities. Thus the individual proprietor owns all and risks all.
- ✓ Partnership: A partnership is a voluntary association of two or more persons to carry on, as co-owners, a business for profit. All partnership firms in India are governed by Indian Partnership Act, 1932. Section 4 of the act defines a partnership as "the relations

between persons who have agreed to share the profits of a business carried by all or any of them acting for all". The agreement between the partners may be oral or in writing. The written agreement is called Article of Partnership or Partnership Deed. With the death, insolvency, insanity or retirement of a partner in a firm the partnership is dissolved unless there is a contract to contrary. An important feature of partnership is that each partner is a general agent for the business and may make contracts that will bind the firm. Another important feature of partnership is the unlimited liability of the partners.

- ✓ Joint Stock Company: A joint stock company is a form of organisation that aims to mobilize a large amount of capital and to ensure highly sophisticated managerial skill. It is subject to the provisions of the Indian Companies Act, 1956. It has been defined as an association of many persons who contribute money or money's worth to a common stock and employ it for a common purpose. The salient features of a joint stock company is as follows:
    - Distinct legal entity
    - Liability of members
    - Perpetual succession
    - Separation of ownership and management
    - Common seal

My Cool Guru™
Share Care Grow

Regulatory Environment

Regulations throughout the world primarily seek to ensure that quality and fairly priced products are available from reliable producers and service providers. A competitive market should be able to ensure that quality and fairly priced products are made available. Government intervention in the form of regulations is most needed to ensure that producers and service providers are reliable. In many developing countries an additional goal may be promoting the domestic industry and ensuring that the national industries contribute to overall economic development. Thus an understanding of the regulatory environment, the policies, the restrictions, the concessions available and so on are necessary for every business operating within the country as well as in the global business market.

The government of any country plays an important pole in almost every national economy of the world. The relationship between the government and the economy has undergone almost a revolution since the Great Depression of the 1930s. The age of “laissez faire” also called the era of free enterprise was based on the assumption that every individual acting as a rational being tries to get the greatest satisfaction from life for himself and in this process, contributes towards the greatest possible satisfaction of the society. The classical economists believe in the non-interference with economic and business activity. Later developments after the industrial revolution shook public faith in this rather idealistic doctrine the laissez faire led to the concentration and ownership of industrial empires in the hands of a small number of people. The government revised their ideas about the role of the state in relation to economic activity. The state could no longer be a passive spectator to the economic scene where business was uncontrolled and unregulated. The outbreak of the First World War declared the end of the “laissez faire” and since then the government has been assigned a more positive role in the economic affairs of a country. While the state control of economy is a universal phenomenon, the extent and nature of control vary widely between nations. In most of the capitalist countries, the state regulates economic activities and operations of business and industries though the ownership and control vests mostly in the private hands. In totalitarian countries and other communist countries, the government has gone to the extent of taking over complete control of economic activity. Production and consumption is determined by the state and whole the economy constitutes the public sector. In the mixed economy the government plays a dual role in relation to private business and private enterprises co-exist with government enterprises. The government also plays the role of a regulator. Some of the important forms of private enterprise by the government are as follows:

- General direction and regulation of investment activity in private enterprise
- Regulation of investment location, size and expansion of individual enterprises and specific industries through industrial licensing.
- Regulation of monopolies and unfair and restrictive trade practices through legislation
- Regulation of prices of commodities and industrial products through legislative authority
- Regulation of wages and bonus of employees in private sector.
- Regulation of corporate management

My Cool Guru™ Share . Care . Grow

- Regulation of specific forms of business activities likes speculation in shares or commodities or imports/exports.

An important part of regulatory power of the government relates to control over private enterprises. The government has the power to fix control and regulate the prices of materials under the Industrial (Development and Regulation) Act, 1991. The aim of government intervention should be maximise society's welfare. One widely accepted method of ensuring this is based on the goal of an efficient allocation of society's resources. Another concept is Pareto-improvement which mean if resources can be reallocated in a way that makes at least one person better off without making anyone else worse off, we have the Pareto-improvement situation.

Thus the regulatory environment is also very important for a business to understand as this will help in formulation of strategy depending on the degree of intervention of government.

Demographic Environment

Demography is the study of population characteristics that are used to describe consumers. Demographics tell marketers who are the current and potential customers, where are they and how many are likely to buy what the marketer is selling. Demography is the study of human populations in terms of size, density, location, age, sex, race, occupation, and other statistics. Demographic factors are necessary for designing insurance products, for conducting market research and for formulating appropriate marketing strategies. Changes in the demographic environment can result in significant opportunities and threats presenting themselves to the organisation. Major trends for marketers in the demographic environment include:

1. Explosive population growth
2. Ethnic and educational mix
3. Educational groups
4. Household patterns
5. Shift from a mass market to micro markets
6. Geographical shifts in population

Cultural environment

Cultural forces are the most difficult uncontrollable variables to predict. It is important for marketers to understand and appreciate the cultural values of the environment in which they operate.

Defining culture in simple terms is very difficult. Hoebel however has defined culture as the integrated sum total of learned behaviour traits that are shared by members of a society. Culture is also said to be a learned behaviour and not biologically transmitted. Culture is considered as distinctive way of life of people. Sir Edward Tylor said, "Culture is that complex whole that includes knowledge, morals, belief, art, law, customs and any other capabilities. The characters integral to the definition of culture are as follows:

- ✓ It is learned, i.e. people acquire it over time.
- ✓ It is interrelated that is one aspect of culture say religion is related to other aspect say marriage.
- ✓ It is shared that is tenets of culture extends to other members of the group

My Cool Guru™ Share : Care : Grow

Culture is the combined result of factors like religion, language, education and upbringing. Culture in general does not change as they are deeply rooted. But this has a major impact on the lifestyle and purchase behaviour of the people. Let us see the elements that build up the cultural environment.

Language: The ability to speak is a typical to human being, which differentiates them from animals. People speak so many languages that it has become one of the major distinguishing factors of culture. The language is used to communicate and translate the environment. The language has two parts, one spoken and the other silent. The spoken part is the verbal language and silent part is non-verbal. Language in general is a combination of the two. Language is often referred to as the mirror of the culture.

Aesthetics: The art, drama, music folklore and architecture present in a society is called the aesthetics. The aesthetic values of a society shown in attributes like design sign colour, expression, symbol, movements emotions and postures, could mean a lot to a business manager designing a product to suit the local cultural set up.

Religion: According to Terpstra and David religion refers to a community's set of beliefs that relate to a reality that cannot be verified empirically. The religion of a person shapes his choice and hence his purchase decisions. That is why a business manager has to understand this fact and respect their buying motives. An MNC also adapts the local religious taboos and shapes its products and services as per that.

Education: Education helps in carrying culture from one generation to another. The level and quality of education and that in comparison to the other country has an impact on the MNCs.

The cultural environment is made up of forces that affect society's basic values, perceptions, preferences, and behaviours. Changes in cultural environment affect customer behaviour, which affects sales of products. Trends in the cultural environment include individuals changing their views of themselves, others, and the world around them and movement toward self-fulfilment, immediate gratification, and secularism. People absorb a worldview that defines their relationship to themselves, others, organisations, society, nature and universe. The trends that we see in this environment are:

1. High persistence of core cultural values
2. Existence of subcultures
3. Shifts of secondary cultural values through time

Hence it is very essential that a marketing person understand the cultural significance before going in for any strategy.

Cultural has a large impact on the consumption habit of people. Since culture is homogeneous within a group so there are similarities in their choices, which needs to be paid attention by the business manager. Consumption patterns and lifestyles are dictated by the culture and the evidence is there throughout the world. In Thailand and China and to some extent in India beef consumption is a religious taboo. Where it is most common food in United States of America and Japan.

Culture also guides the thought process people. The communication process also has an influence from the culture. These factors are to be accepted by any business organisation.

My Cool Guru™ Share . Care . Grow

Real Life Case Scenario

Kellogg's

The early failures of Kellogg's in India are due to its lack of understanding the Indian tastes and preferences. Earlier Kellogg's was positioning its products for the entire family. But Indian breakfast is something more heavy. Cornflake is a breakfast of westernised taste. Also in India for many people breakfast is the substitute for lunch. Kellogg's failed in all these aspect. This has forced company now to position their product for children as a source of complete nutrition and health.

Social Environment

Man being a social animal, interacts with others regularly. Most of the time our social behaviour and relationships are motivated by the desire to satisfy our needs. While discussing social environment we need to discuss certain elements that make up the social environment.

Society: a group of people who share institutions, which we classify as political, economic, religious etc., is called society. A society is the largest membership group. Generally a society has a defined territorial boundary but exceptions like Gypsies are also there. Language and religion are the most important factors that identify the society. The implication for this is that no human in a society can act at his own will. He or she has to co-ordinate with others.

Social class: The members of the society are grouped into a hierarchy of distinct classes, so that the member of each class has approximately equal position in the society with other members of the same class. God created everybody alike but they got differentiated into class when they formed society. Following are the characteristic features of social class:

- Social class is not determined by any single factor. It is thus multi-dimensional because it is based on various components.
- Social classes are divided into upper and lower class. When there is a free movement of people from one class to another it is called open system. When movement is restricted i.e. social class is determined by birth it is closed system. Thus social class is dynamic
- Generally classes are very restrictive. People do not interact freely with people from other class.

- Social classes are ranked as upper social class and lower social class.
- All belonging to the same social class has similar tastes and preferences, likes and dislikes

Group: Two or more people who interact to accomplish either individual or mutual goals are called a group. We can also define group as two or more individuals who share a set of norms values or beliefs and have certain implicitly defined relationships to one another such that their behaviours are interdependent. Following are the characteristics of a group:

- Every group gives its members a rank or an ascribed position as perceived by the other members of the society. This is called status. Associated with status are some rights and duties also.
- Every group also has some set standards and rules which may be unwritten but well understood. They are called norms.
- With every status in a group there is a behaviour pattern associated. For example one who is playing the role of a student has to go to school or college and study. In a group though there are no stringent restrictions but one is rewarded for playing the role and one punished if any non-conformity to roles is there.

My Cool Guru TM
Share . Care . Grow

Socialisation: It is the process by which a new member learns values norms and expected behaviour patterns of the group he is entering. It is an ongoing process. For example, a student when enters the school has to adapt as per that school. The person when marries and settles with spouse enters into married life and this is another socialization.

Power: it is defined as a force that results in a behaviour that would not have occurred if the force had not been present. It also refers to the degree of personal choice a person enjoys or his influence over others. Different types of power are as follows:

- Reward power: it is based on perception one has about another's ability to reward him. Marketers use reward power directly or indirectly to influence customers.
- Coercive power: this is the power to influence behaviour through punishment or by withholding rewards. Marketers can use this power effectively in certain situations. Advertisers selling insurance etc. plays on fear.
- Legitimate power: this power stems from the fact that some group can have legitimate rights to exert power. In marketing charitable institutions when asks to go for polio drops are using this power.

- Expert power: this power results from the expertise gained in due course of time., either by an individual or group. Many companies selling health drinks, toothpaste etc. show the expert power by giving expert opinions in favour of use of their products.
- Referent Power: this power is based on a person's or a firm's or a product's attractiveness or appeal. Advertisers use referent power in promotions by encouraging consumers to be like, or do the same thing as, the individual advertising in the brand.

Family: A family is a household of people related by blood or marriage. More specifically we can define a family as husband and wife with or without never-married children, living together in the same dwelling. A household may contain two generations of people. A family has the responsibility of ensuring the economic well-being of its members. It needs to provide:

- Economic well being
- Emotional support
- Suitable family lifestyle
- Socialisation of children and other family members.

Thus the social environment consisting of the above elements is very crucial for a marketer to be understood as many purchase decision is based on this. The global firms need to understand the social environment before they start operating in any country, as they will have to adapt to the social norms also along with the cultural norms.

Tax Environment

Government intervenes in business markets via taxation. Tax is a compulsory contribution imposed by government, irrespective of the exact amount of service rendered to the taxpayer in return, and not imposed as penalty for any legal offence. In business, understanding of the taxation environment within the country of its operation is crucial since taxation affects business both directly and indirectly. The government intends taxation for three general purposes:

- To raise revenue
- To promote economic goals

- To promote social goals

The features of an ideal tax policy are as follows:

- ***Equity:*** Equity in taxation also called "vertical equity" means that taxpayers must contribute their fair share in taxes.
- ***Neutrality:*** Economic neutrality also called horizontal equity should be a characteristic of an ideal tax system. Governments should tax economically equivalent entities, products and services equivalently. The neutrality aspect should ensure that the tax system
    - Does not benefit one industry at the benefit of others
    - Is not favourable to one set of competitors within a single industry
    - Does not influence any firm's choice of production factors or product outputs
- ***Simplicity:*** the common features of a simple tax system should be
    - It should not be complex to administer
    - The costs of collection of taxes should be low.
    - Firms and individuals should not be able to avoid it easily
    - Taxpayers should be able to comply with the provision of law without undue expenditure of time and money
    - It should be in keeping with the country's level of development and the sophistication of its administrative apparatus.

Thus the tax environment becomes very important for a business to maintain the accounts.

Ecosystem Environment

The ecosystem refers to natural systems and its resources that are needed as inputs by marketers or that are affected by marketing activities. A country economic growth depends on production, which in turn depends to a large extent on the availability of natural resources. If they are not available then the implications are cost to the government. Also the firms are now more concerned about the environmental well-being. Green marketing or environmental concern or consciousness about the physical environment has intensified in recent years. The major problems that we are facing now as a result of industrialisation are:

1. Shortage of raw materials
2. Increased energy costs
3. Increased pollution levels
4. Changing role of governments

To avoid shortages in raw materials, organisations can use renewable resources (such as forests) and alternatives (such as solar and wind energy) for non-renewable resources (such as oil and coal). Organisations can limit their energy usage by increasing efficiency. Goodwill can be built by voluntarily engaging in pollution prevention activities and natural resource. Along with this climate also is an important factor. The climatic condition determines the demand of the customers living in those regions. So an in depth study of the climatic condition is must to decide the production location and marketing territories.

My Cool Guru™ Share . Care . Grow

External Micro Environment

The external microenvironment consists of forces that are part of an organisation's marketing process but are external to the organisation. These micro-environmental forces include the organisation's market, its producer-suppliers, and its marketing intermediaries. While these are external, the organisation is capable of exerting more influence over these than forces in the macro-environment.

The Market

Organisations closely monitor their customer markets in order to adjust to changing tastes and preferences. A market is people or organisations with wants to satisfy, money to spend, and the willingness to spend it. Each target market has distinct needs, which need to be monitored. It is imperative for an organisation to know their customers, how to reach them and when customers' needs change in order to adjust its marketing efforts accordingly. The market is the focal point for all marketing decisions in an organisation.

Consumer markets are individuals and households that buy goods and services for personal consumption. Business markets buy goods and services for further processing or for use in their production process. Reseller markets buy goods and services in order to resell them at a profit. Government markets are agencies that buy goods and services in order to produce public services or transfer them to those that need them. The federal government is the largest buyer in the United States. International markets consist of buyers in other countries.

Suppliers

Suppliers are organisations and individuals that provide the resources needed to produce goods and services. They are critical to an organisation's marketing success and an important link in its value delivery system. Marketers must watch supply availability and monitor price trends of key inputs. If there is a breakdown in the link between the organisation and its suppliers, the result will be delays and shortages that can negatively impact the organisation's marketing plans. On the other hand, positive and cooperative relationships between the organisation and its suppliers can lead to enhanced service and customer satisfaction.

My Cool Guru™
Share . Care . Grow

Marketing Intermediaries

Like suppliers, marketing intermediaries are an important part of the system used to deliver value to customers. Marketing intermediaries are independent organisations that aid in the flow of products from the marketing organisation to its markets. The intermediaries between an organisation and its markets constitute a channel of distribution. These include middlemen (wholesalers and retailers who buy and resell merchandise). Physical distribution firms help the organisation to stock and move products from their points of origin to their destinations. Warehouses store and protect the goods before they move to the next destination. Marketing service agencies help the organisation target and promote its products and include marketing research firms, advertising agencies, and media firms. Financial intermediaries help finance transactions and insure against risks and include banks, credit unions, and insurance companies.

Marketing Information

External environmental sources provide raw data for marketers to develop into actionable, marketing information. Environmental forces create challenges and opportunities for the organisation. Marketers must react and adapt to changes in their external environment. Globalisation is an example of an opportunity for an organisation. Improving technologies, such as transportation and communications, have enabled companies to expand into global or worldwide markets. Marketers must learn to deal effectively with multiple cultures and political systems in the midst of rapidly changing markets and technology. They must be able to anticipate this changing environment and develop the competencies at all levels in their organisations to embrace this dynamic future.

Indian Marketing Environment

The business environment around us is changing rapidly and business leaders are under increasing pressure to cope with this dynamic macro-environment. The IT strategies of companies are also witnessing corresponding shifts, realignments and modifications in order to stay competitive, gain market share or reach out to new markets. This set of status reports explores the emerging business issues in six key industry verticals (Banking & Insurance, Telecom, BPO/ITeS, Life sciences, Manufacturing and Government) and discusses how leading industry players are leveraging information and communication technologies to strengthen their business operations and chart out new growth strategies.

Apart from sectoral insights, these reports provide information about the IT spending patterns of major players in the respective industries, wherever possible.

Political Environment in India

India is a democratic country with a stable political system. The government plays an active role as a planner, promoter and regulator of economic activity. Businessmen in India are keenly aware about the political environment faced by their organizations. Political considerations in line with the political philosophy followed by the ruling party at the centre and the state level, dictates most governmental decisions related to business.

Socio-Cultural Environment in India

It is often very difficult for people to make connections between communication, the media, intellectual property rights and cultural survival (IPR). That should not come, as a surprise for it is often difficult to assess the extent to which 'intangibles' such as ideas and representations affect the ways in which we live our lives. We take for granted our relationship with communications and the media. And yet we are continuously involved in 'consuming' one type of media or the other.

What are the elements of cultural diversity in any given cultural environment? It includes a variety of resources including the knowledge available through educational resources used in schools and colleges, the content available in public libraries and databanks, art and craft, music and dance, indigenous knowledge, traditional culture including myths and stories, festivals and fairs, mediated information through print, broadcasting and hyper-media, all public knowledge along with the knowledge that has been accrued over time in specific communities on bio-diversity and on matters related to the immanent and the transcendent. We must also include in this list the specific formats and media through which this content is stored or conveyed – text, aural and video tapes, software, the internet, public spaces where culture is celebrated or generated and the private spaces of inter-personal communication.

Share . Care . Grow

While some of this knowledge continues to remain in the hands of collectivities, India has entered the era of globalisation, economic liberalisation and multilateral trade. This has proved to be clear threats against cultural autonomy and cultural diversity. The greatest threat comes from the steady accretion, leaching, blurring of distinctions between culture and economics. Today, anything and everything is fair game for entrepreneurs who have wrested culture from its traditional moorings and shaped it into a whole range of marketable commodities. We live in an era in which value resides in commodities and markets. Successive Indian governments have invested in re-creating India in the image of the global market. This state of affairs has been accentuated by the attempted harmonisation of national IPR legislations in line with World Trade Organisation (WTO) and Trade Related Intellectual Property Services (TRIPS) requirements. The Indian Copyright (Amendment) Act (1999), which conforms to the Berne Convention on Copyright and Related Rights, is one of the toughest in the world. It has been amended on a number of occasions notably in 1984, 1992 and 1994. On each occasion, its scope has been widened to embrace extant or new media technologies. For instance the 1992 and 1994 amendments extended copyright to cable television and software.

In the present age when we are moving towards global culture something definitely needs to be done to protect and extend cultural diversity in India. We need to begin an India-wide awareness campaign related to digital information. Given India's 'success' as a software producer, as the natural destination for call centres and a hub for 'business product outsourcing' – these are the stories that predominate in the media. But they miss to refer to that essential quality of information – the fact that digital information really is a non-rivalrous resource. No one's consumption of a digital product diminishes the quality, quantity or availability of the product unlike consumption of toothpaste or a tin of biscuits. People do need to understand that access to digitised information really is an issue to do with human rights.

Secondly, and following on, there is a greater need for research into and public information on the relationship between communication, the media, IPR and cultural survival.

Thirdly, the need for the public to be ever-vigilant of the growing embrace of the market especially in the areas of culture and communications. If we agree that the media product, given its special role as a creator of consciousness, identity and purveyor of values is unlike other commodities, then there is an equivalent need to lobby government to curtail the growth of monopolies in this area, restrict the commoditisation of culture and the media and support the development of community-based copyright agreements and media alternatives.

My Cool Guru™ Share . Care . Grow

Cultural Environment in India

The Indian economy had been booming for the past few years. The country held great promise for the future. Liberalized foreign policies had unleashed the entrepreneurial spirit of its people, and many multi-national firms had set up offices here.

Indians view time differently from the Americans In any business deal they prefer relaxed interactions. The culture is a major factor in shaping business deals. A proper cultural understanding leads to a sense of trust between the parties and business proceeds

Our cultures define our fundamental beliefs about how the world works and form ways in which we interact and communicate with others and develop and maintain relationships. Doing business in a particular nation requires a focus on a multi-dimensional understanding of its culture and business practices. Understanding these differences and adapting to them is the key.

India is a complex country, and those arriving here to do business will discover that the path to success is often, not very smooth. The following points elaborate the difference in our culture from that of west. It also gives an idea about the workings and business norms in practice here.

In the United States of America, efficiency, adhering to deadlines and a host of other similar matters are considered normal and to be expected. But, one needs to understand that one is dealing with people from a different cultural background that think and interact differently. As a result, what is considered to be reasonable and feasible in the U.S.A may not work here.

In India aggressiveness can be interpreted as a sign of disrespect. This may lead to a complete lack of communication and motivation on the part of the Indians. One needs to take the time to get to know them as individuals in order to develop professional trust. Indians are very good hosts and will therefore, invite you to their homes and indulge in personal talk often. All this is very much a part of business. One is expected to accept the invitation gracefully. Taking a box of sweets, chocolates or a simple bouquet of flowers would definitely be a welcome gesture. Indians respect people who value their family. They will allow family to take priority over work, whenever necessary.

Criticism about an individual's ideas or work needs to be done constructively, without damaging that person's self-esteem. As Indians are used to a system of hierarchy in the work-place senior colleagues are obeyed and respected. Supervisors are expected to monitor an individual's work and shoulder the responsibility of meeting deadlines. Therefore, it is important to double-check and keep track of time. Educated Indians have learnt to adapt to Western methods of monitoring one's own work and completing it on schedule.

An Indian who hesitates to say 'No' may actually be trying to convey that he is willing to try, but it may be unrealistic in nature and therefore may not get done. It is important to create a safe and comfortable work environment where it is okay to say no and also okay to make mistakes without the fear of repercussions.

In a group discussion, only the senior most person might speak, but that does not mean that the others agree with him. They may maintain silence, without contradicting him (or you) out of respect for seniority. Westernised Indians on the other hand can be quite assertive and

My Cool Guru™ Share . Care . Grow

direct and should be treated in the same manner. Politeness and honesty go a long way in establishing the fact that your intentions are genuine.

Women are treated with respect in the work place. They feel quite safe and secure in most organisations. Foreign women working here will find it easy to adapt to an Indian work environment. They need to plan their wardrobe keeping in mind the conservative dress codes here.

Humour in the work place is something that some Indians are not used to. Most traditional Indians are teetotallers/vegetarians, so their eating habits need to be respected. Westernised Indians are more outgoing and do socialize and drink (excessively at times).

These tips mentioned above may not apply to all situations, as India is a land of contrasts and each person you meet will be unique blend of Indian/Western values. People from different socio-economic strata, educational backgrounds, class and religion may behave very differently.

For any expatriate the pace, pressure and protocol of living and working in a new country can be overwhelming, but there are many positive aspects to living in India – the valued friendships that one makes with the Indians, the beautiful and exotic places to visit, the multi-varied cuisine to experiment with, and the many, many interesting things to buy. An expatriate who is prepared to accept the differences and make the necessary adaptations will definitely be greeted with the sweet taste of success in all business endeavors.

MyCoolGuru™ Share . Care . Grow

Economic Environment in India

According to Prof. Arvind Panagariya a professor of economics at the University of Maryland economic liberalization in India can be traced back to the late 1970s, economic reforms began in earnest only in July 1991. A balance of payments crisis at the time opened the way for an International Monetary Fund (IMF) program that led to the adoption of a major reform package. Though the foreign-exchange reserve recovered quickly and ended effectively the temporary clout of the IMF and World Bank, reforms continued in a stop-go fashion.

India’s reforms have been piecemeal and incremental. So a casual observer will find nothing happening. Taking an account of the reforms over the last decade, however, the change is unmistakable.

Let us begin with the industrial policy prevailing prior to the launching of the reforms. The heavy industry was a state monopoly. Other industries were either subject to strict industrial licensing or reserved for the small-scale sector. The government had a tight control on industry. But over the last 10 years the domestic economy has been freed from state control. State monopoly has been abolished in virtually all sectors, which have been opened to the private sector. The License Raj is a thing of the past. The small-scale industry reservation still persists but even here progress has been made. Apparel, with its large export potential, was recently opened to all investors.

In the area of international trade, in 1991, import licensing was pervasive with goods divided into banned, restricted, limited permissible, and subject to open general licensing (OGL). The OGL category was the most liberal but it covered only 30 percent of imports. Moreover, certain conditions had still to be fulfilled before the permission to import was granted under the OGL system. Imports were also subject to excessively high tariffs. The top rate was 400 percent. As much as 60 percent of tariff lines were subject to rates ranging from 110 to 150 percent and only 4 percent of the tariff rates were below 60 percent. The exchange rate was highly over-valued. Strict exchange controls applied to not just capital account but also current account transactions. Foreign investment was subject to stringent restrictions. Companies were not permitted more than 40 percent foreign equity unless they were in the high-tech sector or were export-oriented. As a result, foreign investment amounted to a paltry $100-200 million annually. Today, import licensing has been completely abolished.

Today, the private sector has become an active participant in the telecommunications sector, and the New Telecom Policy issued in 1999 sets the target of providing telephones on demand by the year 2002. In many cities, this goal has already been achieved. The provision of cellular mobile as well as fixed service is now open to the private sector including foreign investors. As a result, the telecommunications services in India are mushrooming. Progress has also been made in many areas that were previously off limits to reforms. Insurance has been opened to private investors, both domestic and foreign. Diesel oil and gas prices have undergone some increases. At least symbolic reductions have also been made in fertilizer and food subsidies. The value added tax has undergone substantial rationalization. These reforms have paid handsomely. The economy has grown at more than 6 percent coupled with full macroeconomic stability. This compares with a growth rate of 3.5 percent during 1950-1980. The rate of inflation has been low and foreign exchange reserves are sufficient to finance imports for more than eight months. Rising incomes have helped bring down poverty.

MyCoolGuru

According to official figures, the proportion of poor in total population has declined from 40 percent in 1993-1994 to 26 percent in 2000. But, perhaps, the greatest change in the last 10 years has been in the attitude toward reforms. Whereas the vocal supporters of reforms within India were rare during the 1980s, virtually every political party today recognizes the need for continued reforms. Differences on which reforms to undertake first and at what pace still exist, but few disagree that reforms must continue. Initial fears that changes in governments will bring the reform process to a halt or even reverse it have proven to be without foundation.

(The above extract is based on the Prof. Arvind Panagariya's Report for ADB reprinted in February 2002 in ERD Policy Brief Series)

My Cool Guru ™
Share . Care . Grow