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1. Learning Outcomes

After studying this module, you shall be able to

- Know the different elements of business environment
- Differentiate between the internal and external environment
- Understand the factors that influence the internal and external environment
- Compare /analyze the effect of micro and macro environment

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2. Introduction

Just as the life and success of an individual depends on his innate capability, including physiological factors, traits and skills to cope with the environment, the existence and success of business firm rest on its distinctive strength –the source at its command, including physical Resources, skill organization and its compliance to the environment. A total business system, thus, consist of two sets of factors-the interior factors and the external factors.

The internal factors are the factors over which the firm has governor. It can alter such factors as its staffs, physical facilities, organization and useful means; such as the marketing mix, to suit the specific situation. These factors therefore generally regarded as controllable variables.

On the other hand the Exterior factors are the factors beyond the control of the firm-e.g. is economic environment, political environment, legal environment, socio-cultural environment, competitive environment & physical environment. These environment factors are therefore, generally regarded as uncontrollable variables.

As the environmental issues are, by and large, uncontrollable, the accomplishment of a firm depends to a very large extent on its adaptability to the environment, that is, its ability to correctly design and alter the controllable variables to ensemble the business environment.

3. Systematic Outline of External Factors

Economic Environment

Economic situations, economic procedures and the economic structure are the important external features that established the economic environment of a business.

The economic conditions of a country-e.g. the nature of the economy, the stage of development of the economy, are among the very important determinants of business strategies.

When we talk about the monetary environment there has been a growth of world economic incorporation and standardized products. Coca Cola, Nissan, Marlboro cigarettes are case in point of products which serve nearly every market. Generally there have been four major changes:

- Capital engagements rather than trade have develop the driving force of the worldwide economy
- Production has become “uncoupled” from service
- Primary product have develop “uncoupled” from the industrial economy and
- The world economy no more in regulating of individual nations-despite large world economic share of the USA, China, Japan.

In a developing country, the low income may be the reason for the very low demand for the product. Also there are number of economist and business men who fell that the developed

countries are no longer worthwhile propositions for investment because these economies have reached more or less saturation levels in certain respects.

Political and Legal Environment

The government policies refers to the laws and legality that guilds the land, they go a long method to distress your business operations as a marketer. For instance, government constraint on the importation of a precise product might hold back the marketers playing in that specific field.

For many businesses, non-market services are as important as market factors: the interface between government institutes, elected officials, policy-oriented militants and NGOs form the political and authorized environment for firms in ways that have direct implications for their bottom line.

Political and legal environment has close relationship with economic system and economic policy. E.g. the communist countries have a centrally intended economic system (China)

A part from laws that control Investment and related matters, there are a numbers of laws that control the conduct of business. These laws cover such matters as standard of products, packaging, promotion etc. e.g. In India, the advertisement of alcoholic liquor is prohibited. Advertisement, including packaging of cigarettes carries the statutory warning that “Smoking Cigarette is injurious to health”.

At the same time in nations like Germany, product assessment commercials and the use of superlatives like best or excellent in commercials is not allowed.

Competitive Environment

Competition is another very important external factor affecting a business. The business strategy of a firm is obviously influenced by its competitive situation. If a firm is less powerful than its competitors it may fall in line with the policy of the strong competitors. There are, however examples of very small firms achieving wonderful success and outstrips market leaders by appropriate marketing strategies.

As per the Forbes magazine “As a business owner or sales professional, you have but no choice other than to become phenomenal at selling. The internet has given a lot more buying options for companies and, as a vendor you have to adapt to successful in highly competitive environments or...make little to no money”

The success story of Nirma Chemical Works, started as a small-scale unit in Ahmedabad in 1969, deserves mention here; Nirma has captured the market in a big way, leaving all its competitors in the organized and small sectors behind. Quality and a very low price have been the two most important reasons for its success.

Socio-Cultural Environment

The social and cultural forces states to the structure and dynamics of individuals and groups and their behaviors, believes, thought arrangements and lifestyles, friendship etc many of this trends goes a long way to distress your marketing operations. The socio-cultural fabric is a significant environmental that should be analyzed while framing business policies. The cost of ignoring the customs, traditions, tastes and preferences etc. of a people could be very high. The marketing mix will have to be so designed as best to suit the environmental characteristics of the market.

“Nestle”, a Swiss multinational company, today beverages more than forty variabilities of immediate coffee to satisfy different national tastes.

The Differences in language from time to time pose a serious problem, even demanding a change in the brand name.

“Preett” Was, perhaps, a good trademark in India; but it did not ensemble in the external market; and hence it was appropriate to adapt “Prestige” for the overseas markets.

Demographic Environment

Demographic aspects like the size, development rate, age conformation of the population, family size, educational levels, language, caste, religion, etc., are all factors which are relevant to business. A rapidly increasing population indicates a growing demand for many products. High population development rates also indicate a vast increase in labor supply. When the western countries qualified the business revolution, they had the problem of labor supply, for the population growth rate was comparatively low. Labor scarcity and rising wages stimulated the growth of labor-saving technologies and automation. But most emergent countries today are suffering a population burst and condition of labor surplus. The government of developing countries therefore encourages labor intensive methods of production. Cheap labor and growing markets have encouraged many multinational corporations to invest in developing countries.

Physical and Technological Environment

Physical and technological factors may affect business conditions and prospects. Physical factors, such as geographical factors, weather and climate conditions may call for modifications in the product, etc. to suit the environment because these environmental factors are uncontrollable.

Technology post much challenges to marketers, it affects the kind of product that you as a marketer can offer, For instance, technology have changed products like typewriting machines into a more proficient computer systems. You cannot stop the advancement of technology, but you can learn to adapt to it changes.

Technological factors sometimes pose problems. A firm which is unable to cope with the technological changes may not survive. Further, the differing technological environment of different market or countries may call for product modifications.

E.g. many presentations and devices in the U.S.A are planned for 110 volts but this need to be converted into 220 volts in countries which have that power system.

International Environment

The international environment is very significant from the point of view of certain categories of business. It is mainly significant for industries openly depending on imports or exports and import opposite industries.

E.g. oil prices hike have seriously affected a number of economies. These hikes have increased the cost of production and the prices of certain product, such as fertilizers, synthetic fibers etc.

The oil emergency also encouraged some companies to alternative to DE marketing. “DE marketing refers to the process the of cutting consumers demand for a product back to the level that can be supplied by the firm”.

Some oil companies-The Indian Oil Corporation, for instance have shown tips on how to cut oil consumption.



4. Difference between Internal and External factors

UNDERSTANDING THE DIFFERENCE amongst internal and external commercial environments is very significant. These environments have a major effect on the operations and performance of the company.

To fully recognize the difference amongst internal and external business environments and how they apply to your corporation, you need to establish what each environment represents.

As the name suggests, **“Internal”** business surroundings refers to internal influences and assets that affect the running of the business. This primarily includes the workforce. The employees play a vital role in affecting the company’s performance. If you have well trained, motivated employees, you are more likely to get good output from them. However, if you have unmotivated employees this will definitely affect your company’s production levels.

Another factor is the company assets available, such as plants and machinery, motor vehicles, and Any other equipment used in production. If you have satisfactory assets in good circumstance, your production will be better than if you don’t.

On the other hand **“External”** business environments include factors: political, technological, economical, demographic and socio-cultural. These issues may not have an instant direct effect on your business, but they will play a part in determining your business with time. For example, if your country faces economic hardships, your business may not do so well.

Technology can have negative or positive impacts on a business. Technological developments can help make your work easier and increase your productivity; it can also allow for the expansion of your business. However, it can lead to the reduction of your workforce due machines which, therefore, means loss of jobs for some people

External environments may also affect your ability to acquire loans from banks or other financial institutions. For instance, when the economy goes down, financial institutions

don't lend money easily.

Sometimes external and internal environments are intertwined. For instance, political and economic issues will affect the availability of a workforce and other resources. They will also affect the availability of finances to the business. During political unrests, most businesses are not able to operate normally and some end up shutting down all together.

Other external environments that can disturb the internal environment include legal limitations. Sometimes, laws are passed that affect some businesses. For instance, some of the laws like the increase of taxes on some goods and services affect the business. When tanning taxes were increased in America, a lot of Americans stopped going to tanning salons. The business operations were reduced and the clients decreased in numbers.

Other factors that can be termed as part of the external environment include natural disasters or calamities, such as tornados, hurricanes and tsunamis. These calamities affect the operations of the business. They have emotional impact on the workforce, the markets, and all other resources and, in most cases, they lead to the closure of the business due to property destruction.

The central difference between internal and external business environments is that, one can be controlled while the other one can't. However, you have some control over your internal business environment. You can control your management and resources to ensure that you realize good

Production levels at your company. External environments, on the other hand, aren't easy to control or manage. In fact, some of these factors can lead to the closure of your business.

The main reason why the external environments are hard to control is because, at times, they can be unpredictable. For instance, it may be hard to plan ahead for the occurrence of a natural disaster. Furthermore, you may not be in a position to do anything about them when they occur, unlike internal environments that you may be able to control and manage effectively. If you maintain a corporate risk assessment, you can put up measures to deal with any problems that may occur as a result of issues with the internal environment. However, it's hard to prepare for external environments since some of the issues that occur aren't predictable.

5. Effect of Micro and Macro Environment

The external business environment contains of a micro and a macro environment

Micro Environment

“The Micro environment contains of the performers in the company's instant environment that distresses the performance of the company. These contain the suppliers, marketing intermediaries, participants, customers and the publics”.

“The Macro environment contains larger social forces that affect all the performers in the company's micro environment-namely, the demographic, economic, political and cultural forces”. It is quite clear that the micro environmental factors are more intimately linked with the company than the macro factors.

Some of Micro Environment Actors are as follows:-

1. **Suppliers:** - A significant force in the micro environment of a business is the suppliers, i.e. those who supply the inputs like raw resources and components to the company. The significance of consistent sources of supply to the smooth functioning of the business is obvious. Improbability regarding the resource or other resource controls often requires companies to retain high inventories make happen cost increases.
Therefore it is very risky to depend on a single supplier because a strike, lock out or any other production problem with the supplier may seriously affect the company. Similarly, A change in the attitude or behavior of the supplier may also affect the company. Hence, multiple sources of supply often help reduce such risks.

2. **Customers:** - The major task of a business is to create and sustain customers. A business exists only because of its customers. Monitoring the customer's sensitivity is, therefore, it is necessary for the business success.
A company may have different categories of consumers like individuals, households, industries and other commercial establishments and government and other institutions.
E.g. the customers of a tyre company may include different automobile owners, automobile manufacturers, public sector transport undertakings and other transport operators.

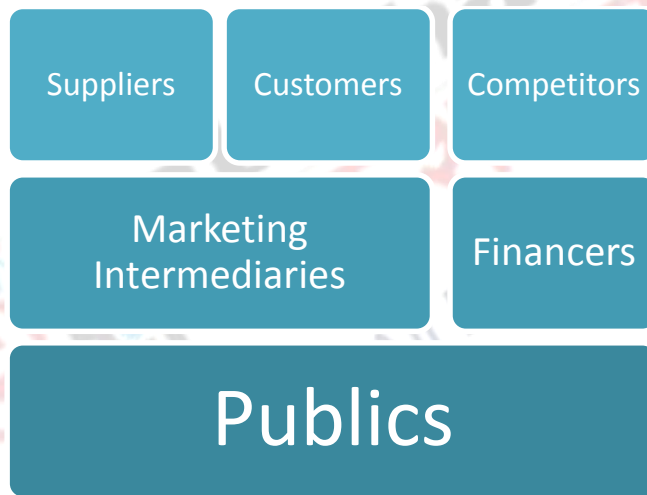
3. **Competitors:** - A firms competitors include not only the additional firm which the market the similar products but also those who compete for the discretionary income of the consumers.
E.g. the competition for a company's television may come not only from others T.V manufacturer but also from two-wheeler, refrigerators, cooking ranges, stereo sets and so on.
This competition amongst these products may be defined as "desire competition" as the most important task here is to effect the basic desire of the consumer. Such want Competition is generally very great in countries described by limited not reusable incomes and many disappointed desires.

4. **Marketing Intermediaries:** - The Instant environment of a company may consist of a number of advertising intermediaries which are "companies that aid the company in encouraging, selling and allocating its goods to final buyers".
The marketing intermediaries include distributors such as agents and commercial who "help the company to find clients with them", Physical distribution firms which "assist the company in stocking and moving goods from their origin to their destination" such as warehouses and transportation firms; Marketing service agencies which "assist the company in targeting and promoting its products to the right markets" such as advertising agencies, marketing research firms etc.

5. **Financers:** - Another important micro environmental factors is the financers of the company. Besides the financing capabilities, their policies and strategies, attitudes

(including attitude towards risk), skill to provide non-financial assistance etc. are very important.

6. **Publics:** - a company may meet certain peoples in its environment “A public is any set that has an actual impact on an organization’s ability to achieve its interest”. Media publics, Legal resident Action publics and local publics are some examples. Some companies are seriously affected by such publics. E.g. many leading companies in India was frequently under attack by the media public, particularly by a leading daily which was allegedly bent on bringing down the shares prices of the company by tarnishing the image.



Macro Environment

The macro forces are, usually, more irrepressible than the micro forces. When the macro environment is irrepressible, the success of a corporation depends on its adaptability to the environment.

The macro environment in which a company operates will influence its presentation, and the aggregate of the encouragement will depend on how much of the company's business is in need of on the health of the overall economy. Cyclical industries, for instance, are heavily inclined by the macro environment, while customer tacks are less so.

Important macro environment factors include economic environment, political and regulatory environment, social / cultural environment, demographic environment, technological environment, natural environment and global environment.

Global Environment: - The global environment refers to those global factors which are relevant to business, such as the WTO principles and agreements; other international conventions/treaties/agreements/declarations/protocols etc. economic and business conditions/sentiments in other countries etc.

Similarly, there are certain expansions, like a hike in the crude oil price, which have the global impact.

8. Summary

- Business system consists of two sets of factors, internal and external factors.
- Internal factors are the factors over which the firm has control. It can alter or modify such factors.
- External factors are the factors beyond the control of the firm-e.g. is economic environment, political environment, legal environment, socio-cultural environment, competitive environment & physical environment.
- The Micro environment contains of the performers in the company's instant environment that affects the performance of the company. These contain the dealers, marketing intermediaries, competitors, customers and the publics
- The Macro environment contains larger social forces that affect all the performers in the company's micro environment-namely, the demographic, economic, natural, political and cultural forces.