

1.4: Factors Comprising and Affecting the Marketing Environment

Learning Objectives

By the end of this section, you will be able to

- Define and describe the marketing environment.
- Explain the components of the marketing environment.
- Identify and describe the internal factors of the marketing environment.
- List and describe the components of the micro- and macroenvironments.

The Marketing Environment Defined

Organizations don't operate in a vacuum. They're not self-contained, self-sufficient machines; rather, they are complex systems that require interaction with facets of both their internal and external environments to survive and prosper. In this section, we explore the internal and external factors that drive an organization's marketing activities.

The marketing environment comprises both the external and internal factors and forces that influence an organization's decision regarding its marketing activities. Some of these factors—internal factors—are within the organization's control. Other factors—external factors—are outside the organization's control. We'll explore these in more depth below.

To illustrate this concept of internal and external factors and forces, think about your body as an organization. Your body is composed of internal organs and systems, such as your heart, lungs, and digestive system. These organs and systems function both independently and interdependently to keep your body going. The same is true with a business. The systems of the business are the people and departments that make up the internal organization (such as marketing, accounting, human resources, etc.). And just like the human body, these systems function independently and interdependently.

At the same time, your body is exposed to external influences, like expectations from your family and friends, cultural or gender stereotypes, and family responsibilities, that influence decision-making in either a positive or negative way. The same is true of the marketing activities of a business. They're influenced by factors both from the macroenvironment and the microenvironment. Let's take a closer look at these factors.

The Components of the Marketing Environment

As we'll explore below, the internal environment is company-specific and includes the 5M framework and organizational culture. The external environment is subdivided into two components: the microenvironment (or task environment) and the macroenvironment (or broad environment), as illustrated in Figure 1.6.

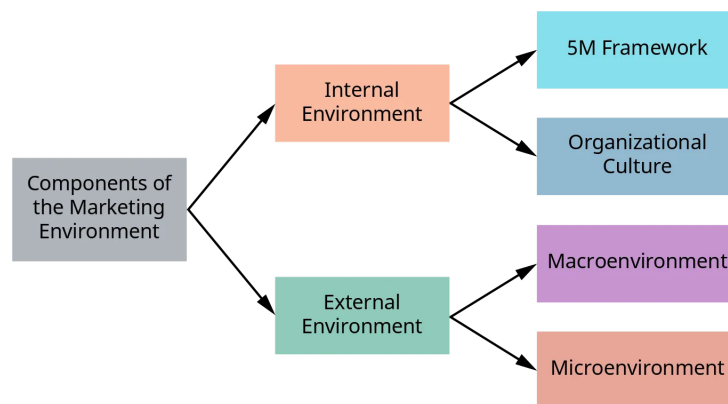


Figure 1.6 The Components of the Marketing Environment (CC BY 4.0; Rice University & OpenStax)

Components of the Internal Environment

The internal environment in marketing refers to those elements *within* the organization that define the atmosphere within the company's structure. These factors include what are known as the 5Ms of marketing and organizational culture.

The 5Ms of marketing (sometimes also called the 5M framework) is a marketing/management model that defines the elements of a marketing strategy that must be addressed for an organization to succeed. The five elements (sometimes known as the

organization's assets) include minds, minutes, machinery, materials, and money (Oxford College of Marketing, 2023). Let's take a closer look at each of these factors:

- **Minds (Staffing):** This "M" might well be considered the most important factor because it consists of people who make sure the rest of the 5Ms are utilized productively to achieve the organization's goals (Oxford College of Marketing, 2023).
- **Minutes (Time):** Time is another valuable asset. We've all heard the saying that time is money, and this is true within the marketing arena. For example, in formulating and implementing a new strategy, marketing must assess factors such as whether existing production processes are as efficient and effective as they can be, how long it takes the organization to introduce a new product to the market, and how responsive the organization is to competitive pressures (Oxford College of Marketing, 2023).
- **Machinery (Equipment):** Machinery consists of the equipment and/or physical assets used to process materials into finished or semi-finished products.
- **Materials (Production):** Materials consist of the inputs needed to produce goods and services.
- **Money (Finance):** Perhaps second only to staffing, money is a critical resource because it is used to acquire and/or hire other resources.

Organizational culture comprises the shared values, attitudes, expectations, norms, and practices that guide the actions of all within the company. Think about organizational culture as "the way we do things around here," and the culture can help or hinder an organization. For example, a good culture embodies positive traits that lead to improved performance and profit. On the other hand, a dysfunctional culture that's toxic and/or inefficient can hinder even the most successful organization (Wong, 2020).

For an example of a positive organizational culture, consider Zappos, where happiness is a core value. Founder Tony Hsieh wrote a book on the topic and has said, "We're willing to give up short-term profits or revenue growth to make sure we have the best culture" (Razzetti, 2019). Hsieh was not afraid to put his money where his mouth was, either. To maintain an outstanding company culture and a productive workforce, he instituted a policy to pay new, unhappy employees \$2,000 to quit following their four-week training period (Canales, 2020).

By contrast, consider what a dysfunctional culture can do to an organization. During the summer of 2020, *The Ellen DeGeneres Show* was called out for having a toxic work environment. Eleven employees spoke out publicly about the negative organizational culture. There were allegations of sexual misconduct, intimidation, and racism (Yandoli, 2021). Ratings faltered because of the allegations, and DeGeneres ultimately decided to end her daytime talk show.

But how does organizational culture impact marketing? Here are three very tangible ways that your company's culture can make a positive impact on marketing:

- Branding and marketing efforts emanate from the organization's core values and culture and guide the organization's marketing message. Therefore, if your marketing message doesn't match the reality of the business, it's akin to that old adage about "putting lipstick on a pig" (Click, 2016). You're talking the talk but not walking the walk.
- A strong culture strengthens your marketing message because it gives prospective customers a better idea of the values of your business, and customers who know what you believe and value are much more likely to do business with you. For example, research has demonstrated that 86 percent of buyers are willing to pay more for a positive customer service experience (Kulbyte, 2021). Once again, think about the culture at Zappos. One way the company has developed a strong following of loyal customers is through its policy that call-center employees are empowered to do "whatever it takes" to make the customer happy. Call center employees don't use scripts for calls, and there are no time limits on calls (Taylor, 2008).
- A strong organizational culture is also key in attracting and retaining employees. In his quest for a happier, more positive work environment, Hsieh implemented several policies at Zappos that he felt contributed to this environment, including a relaxed dress code, discounted food and drink, relaxation areas, and more (Young, 2019). TOMS (featured in Companies with a Conscience later in this chapter) is another excellent example of a strong organizational culture.

Components of the External Environment

The external marketing environment contains two elements: the microenvironment and the macro-environment. Although the factors within these environments are not directly within the marketer's control, they still influence the decisions marketers make. We'll first examine the factors in the microenvironment, as shown in Figure 1.7.

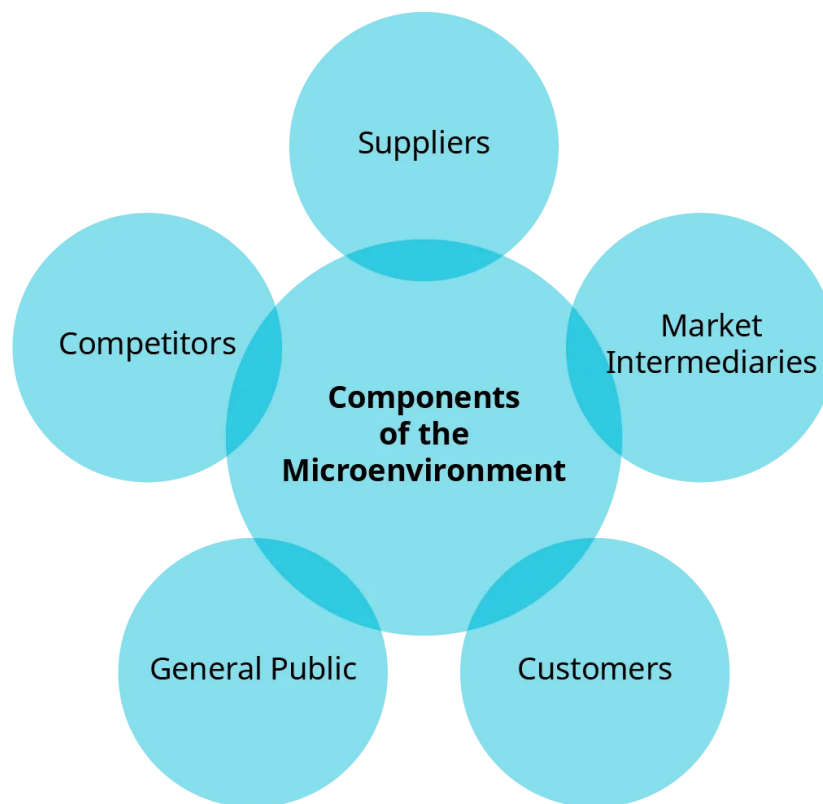


Figure 1.7 Components of the Microenvironment (CC BY 4.0; Rice University & OpenStax)

The microenvironment consists of five predominant factors.

- **Suppliers.** Suppliers (sometimes also called *vendors*) are those partners from whom we receive the parts and products necessary for our business. Let's assume that your company produces microwave ovens. Some of your suppliers may be providers of transformers, the turntable, control panels, and magnetrons. As long as you have options regarding the component suppliers, each supplier's bargaining power is relatively weak. However, if two suppliers merge and decide to raise the price of the component the new entity supplies, that vendor now wields increased power.
- **Market Intermediaries.** Often, products are distributed by third-party sellers such as retailers, wholesalers, and others in the distribution channel. The reputation of these market intermediaries plays an important role in the marketing of the product or service, both positive and negative, so companies must select and monitor market intermediaries on an ongoing basis. We'll learn more about the roles of these intermediaries in *Distribution: Delivering Customer Value*, but let's provide a couple of definitions and examples to help you better understand some of the parties in the distribution channel. Retailers (like Walmart or Target) purchase large quantities of goods from producers and then sell smaller quantities to end customers for personal use or consumption. Wholesalers purchase large quantities of products from producers and then sell to smaller businesses, such as retail stores. A good example of a wholesaler is Gexpro, which sells electrical supplies for the construction industry.
- **Customers.** Understanding who your customers are will enable you to reach them effectively, whether online, locally in retail stores, or internationally.
- **Competitors.** Successful marketing strategies must be implemented after consideration of your competition. Knowing who your competition is and what they are and are not offering allows you to find the gap in the market. You want to be where the competition is not, at least in the sense of offering something unique to a targeted market.
- **General Public.** Because companies provide their offerings to communities that support them, they have an obligation to satisfy those communities. There's an old saying that "perception is reality," so marketers' actions must be evaluated through

the perceptual lens of those communities because the public’s perception of you—your reputation—is essential to your success (Oxford College of Marketing, 2023).

Components of the Macro-environment

Obviously, marketers can’t ignore what’s going on in the external environment. One tool used by companies to assess the environment in which they are operating is a PESTLE analysis. PESTLE is an acronym for political, economic, social, technological, legal, and environmental factors that provide marketers with a comprehensive view of the whole environment from multiple angles (PESTLE Analysis, 2023). These macro-environment factors can be used to understand current external influences so that marketers can more easily identify what might change in the future, mitigate the identified risks, and take advantage of competitive opportunities (see Figure 1.8).

| Political Factors | Economic Factors | Social Factors | Technological Factors | Legal Factors | Environmental Factors |
|---|---|---|--|---|---|
| <ul style="list-style-type: none"> • New taxes • Fiscal policy • Trade tariffs | <ul style="list-style-type: none"> • Inflation rates • Interest rates • Foreign exchange rates • Economic growth patterns | <ul style="list-style-type: none"> • Demographics • Cultural trends • Population analytics | <ul style="list-style-type: none"> • Innovations in technology • Automation • Research and development • Technological awareness | <ul style="list-style-type: none"> • Consumer laws • Labor laws • Safety standards | <ul style="list-style-type: none"> • Climate • Geographical location • Stakeholder and consumer values |

Figure 1.8 PESTLE Factors (CC BY 4.0; Rice University & OpenStax)

Let’s look at these factors more closely:

- **Political Factors.** These factors include environmental and trade restrictions, political stability, and business policy. For example, Tesla announced in late 2021 that it is moving its headquarters out of California to Texas, following similar announcements by Hewlett Packard Enterprise (HPE) and Oracle, citing such things as lower housing costs and tax rates and fewer regulations, making it easier for companies to operate in Texas.
- **Economic Factors.** Economic factors play a huge role in terms of a company’s prospects in a market. For example, economic factors affect pricing and can even influence the supply/demand curve for a product or service. For example, high inflation causes consumers to have less spending power, which translates into lower sales and revenue. In 2022, consumers experienced both product shortages and higher prices, blamed largely on COVID-19, Russia’s war on Ukraine, and the availability of certain commodities, such as corn, sunflower oil, and wheat (Cerullo, 2022).
- **Social Factors.** Social factors take in a wide swath of elements, such as cultural norms and expectations, health consciousness, population growth/decline, the age distribution of a population, and even career attitudes. Let’s take one of these factors—age distribution—and examine how it impacts marketing. Baby boomers (born between 1946 and 1964) comprise approximately a quarter of the US population. It’s largely as a result of this group’s aging and retirement that active adult communities such as Del Webb and others have sprung up across the nation (Logan & LaRue, 2019).
- **Technological Factors.** These factors encompass the innovations and developments in technology that impact an organization’s operations, as well as the rate of technological change. For example, look at one simple technological change with which we’ve all become comfortable in the public arena over the past decade or so: free Wi-Fi. Starbucks was able to take advantage of this change, and reposition its coffeehouses, and differentiate itself from competitors by offering free Wi-Fi (Makos, 2024).
- **Legal Factors.** These factors include changes to legislation impacting employment, industry regulation, licenses and permits, and intellectual property.
- **Environmental Factors.** In the context of a PESTLE analysis, environmental factors refer to variables affecting the physical environment, like climate change, pollution, the scarcity of raw materials, and the growing concern over companies’ carbon footprints.

Knowledge Check

It’s time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The extent to which the supply chain adds value to our marketing strategy is best addressed by our evaluation of which of the 5Ms?

- a. Materials
- b. Money
- c. Machinery
- d. Minutes

2.

_____ consist of third-party sellers such as retailers, wholesalers, and other resellers in the distribution channel.

- a. Suppliers
- b. Market intermediaries
- c. Partners
- d. Customers

3.

If you wanted to fill a gap in the marketplace, you would have to carefully consider _____ to see what is already available on the market.

- a. the competition
- b. the customers
- c. the public
- d. the resellers

4.

Which of the domains of the macroenvironment are most likely to be responsible for cutting-edge innovations?

- a. Economic
- b. Technological
- c. Political and legal
- d. Social and cultural

5.

You want to target a market more narrowly than simply using demographic data. You are also considering segmenting on people's attitudes and interests. Which domain of the macroenvironment is most likely to be a relevant data source for your decision-making?

- a. Economic factors
- b. Natural factors
- c. Political and legal factors
- d. Social factors

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