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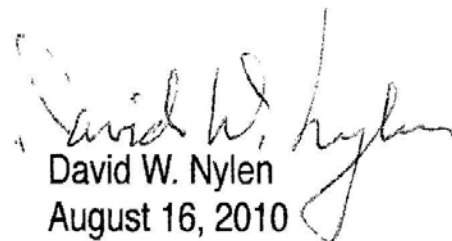
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David W. Nylen  
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## A.4 Environmental Variables

### CHARACTERISTICS OF ENVIRONMENTAL VARIABLES

The **environmental variables** are forces that influence the market, but are external to the marketing decision maker and outside the individual decision maker's control. Some of the environmental variables, such as economic conditions, are external to the firm and clearly beyond the control of the marketer. Others, such as the objectives of the firm, are internal to the firm. Although the firm's objectives are set and can be changed by the firm, once they are established the individual marketing decision maker must accept them as providing decision-making direction.

The environmental variables are frequently referred to as the **uncontrollable factors**. This is in contrast to the controllable factors that include the product's **positioning** and the elements of the **marketing mix** that together make up the marketing strategy. Unlike the environmental variables, the marketer can manipulate the marketing strategy for the firm's product. The environmental variables are the context within which the marketer creates a marketing strategy through decisions about the positioning and the marketing mix.

*Analysis of Environmental Variables.* Analysis of environmental variables makes up a major element in the **situation analysis**, the first step in the **marketing planning process** (see GLOSSARY entry A.17). It is essential that this analysis be conducted before the marketing strategy is set. Because the environmental variables cannot be changed by the marketer, the strategy of the product must be adjusted or fit to its environment. The

purpose of the analysis of environmental variables is to uncover the opportunities and threats in the environment to which the marketing strategy must adjust.

The process for analyzing environmental variables has two steps. First, those variables that will influence the product must be identified. Second, information about each relevant variable must be analyzed to determine the nature of the opportunity or threat that it will create. Not all environmental variables influence a product. Rulings of the Food and Drug Administration, for example, will be very influential in the marketing of drug products, but will have little impact on a defense contractor. An environmental variable can create either an opportunity or a threat to a product. Rising oil costs were a threat to automobile manufacturers and utilities, but presented an opportunity for alternative fuels like coal and alcohol.

Six classes of environmental variables are described below as a guide to the analysis process.

- *Strategic Direction of the Business.* Included in this classification are the resource strengths of the firm, the strategic direction decided upon for the firm or business unit, and the objectives and policies that flow from that strategic direction. Resources of the firm include financial strengths, production capabilities, technological advantages, raw material resources, and marketing strengths such as established channels of distribution. Strategic direction refers to the firm's decision regarding the businesses it will be in and the competitive advantage that it will attempt to build upon. Strategic direction is internal to the firm and decided upon by management of the firm. However, once set, the strategic direction becomes both direction and a constraint to the

marketer and, hence, an uncontrollable variable.

- *Competitive Environment.* The competitive environment includes the **competitive market structure**, which looks at the market in the aggregate, and the marketing strategy of individual competitors. Competitive market structure should be analyzed because it provides insight into the competitiveness of markets. This variable is examined in detail as a separate concept in GLOSSARY entry A.1. The marketing strategy of each major competitor should be analyzed to determine uncovered niches in the market or areas where the marketer's product enjoys competitive advantage.
- *Economic Environment.* Conditions in the macroenvironment create threats and opportunities for many products. Economic variable analysis should include consideration of the level of economic activity, the level of prices, level of interest rates, the balance of international trade and exchange rates, and the structure of personal income, expenditure, and saving. Products vary considerably in their sensitivity to these variables.
- *Technological Environment.* New technology can have dramatic impact on markets, obsolescing some products and creating new markets for others. Hand-held computers, jet airplanes, and word processors are examples of technological advances that created new markets and drove out obsolete products. Technological advances are sometimes difficult to identify in a timely way since they often develop outside the traditional industry. Quartz watches and xerography are examples.
- *Political/Regulatory Environment.* Some political and regulatory movements like consumerism, "buy American," product liability rulings, and the clean air/clean water acts affect broad segments of the economy. Other regulation (or deregulation) is more product specific. Examples would be the deregulation of the trucking industry, approval controls on genetic drugs, and gasoline mileage requirements for new cars. Although there has been some move toward deregulation of certain industries, regulation of business is still pervasive and has some impact on almost all products.
- *Social/Cultural Environment.* Social and cultural trends are difficult to identify and slow to change, yet they have enormous impact on the growth, decline, and change in markets. The decline in the birth rate, the increase in the number of working women, and the increased

demand for meaningful work are three trends that have changed markets. In analyzing social trends, marketers should not overlook changes in the growth and composition of the population.

#### *Monitoring Changes in the Environment.*

After an environmental analysis has been conducted and the marketing strategy for a product established, it is essential that a program be established to monitor these same environmental variables to identify changes. Changes in environmental variables create new threats and opportunities and call for adjustments in marketing strategy. Frequently when marketing problems occur, analysis will determine that the underlying cause of the problem is a change in an uncontrollable variable. Marketers, who are facing a problem and attempting to determine its underlying cause, should reexamine the environment to determine what changes have taken place that may have caused the difficulty. A large portion of marketing problems result from changes in the environment.

If a firm has established a **marketing information system**, one of its primary tasks will be to monitor the external environment and alert marketing management to changes so that marketing strategies can be adjusted (see GLOSSARY entry D.4).

### APPLICATION OF THE CONCEPT TO MARKETING DECISION MAKING

Environmental variables are beyond the control of individual marketing decision makers, but they have major effects on both product marketing strategy and the strategic marketing of a business. The decision rule in either case is the same. *Environmental variables create opportunities and threats to which marketing strategies must adjust.* Application of this decision rule to product marketing and strategic marketing is reviewed below.

*Environmental Variables in Product Marketing.* Environmental variables play a role in product marketing both in formation of the

marketing strategy through the **marketing planning process** and in analysis and resolution of individual product marketing problems during implementation of the strategy.

In developing the marketing plan for a product, analysis of the environmental variables should be conducted as a part of the **situation analysis**. This section of the analysis should consist of identifying the environmental variables that will affect the product and then determining what threats and opportunities will be created by each. It is essential that the environmental variables analysis be completed before marketing strategy decisions are made so that the marketing strategy, both the **positioning** and the **marketing mix**, can be adjusted to these uncontrollable factors.

- **Positioning.** In positioning a product, one of the steps is **target market selection**. Opportunities and threats created by the uncontrollable variables will make some target markets more desirable than others, thus forming one of the target market selection criteria. For example, the increase in the number of working mothers (a social and economic change) has enhanced the growth of the market for day-care centers, making them a more attractive target market (see GLOSSARY entry B.4).

- **Marketing Mix.** Some environmental variables call for adjustment of specific **marketing mix** variables (see GLOSSARY entry C.16). Use of unit pricing by retailers was a response to a call from consumer groups. Introduction of tamper-proof packaging was a response to consumer fears and legal pressures. Changes in television advertising of toys was an adjustment to pressures from parents and parent organizations.

Problems that arise in the implementation of a product marketing strategy may be the result of environmental variables. The first step in attempting to resolve a marketing problem is to determine the underlying cause of the problem. The marketing environment is one of the most likely places to search for problem causes. In particular, the marketer should review the environmental variables to determine which of them have changed. Changes in environmental vari-

ables frequently bring about marketing problems. Changes in technology, a shift in population, or a change in marketing strategy by a major competitor could each be a factor creating a problem for a product. When such changes take place, the marketer must accept them as uncontrollable and review the marketing strategy—both the **positioning** and the **marketing mix**—to determine how they should be adjusted to fit the changed market conditions.

***Environmental Variables in Strategic Marketing.*** The environmental variables play a role in strategic marketing that parallels their role in product marketing. In the **strategic marketing planning process**, analysis of the environment is undertaken to determine opportunity markets or markets with entry barriers (see GLOSSARY entry A.19).

Changes in the environmental variables also create problems and opportunities to which the strategic marketing plan must respond. Abell terms these environmental problems and opportunities “strategic windows.”<sup>1</sup> He suggests four changes in the marketing environment that are likely to create these strategic windows. They are the development of new primary demand (growth in the overall market), the introduction of new technology, market redefinition through competitive activity, and changes in the channels of distribution. When these changes take place, the marketer has a strategic window, a short period of time in which the firm must adjust its strategic marketing approach to the new realities of the marketplace or, if it cannot adjust, exit the market.

***Megamarketing.*** Several authors have suggested that, at least at the corporate level, environmental variables need not be treated as entirely uncontrollable.<sup>2</sup> They argue that firms can use such tools as public relations,

<sup>1</sup>Derek F. Abell, “Strategic Windows,” *Journal of Marketing* 42 (July 1978), pp. 21–25.

<sup>2</sup>Carl P. Zeithaml and Valarie A. Zeithaml, “Environmental Management: Revising the Marketing Perspective,” *Journal of Marketing* 48 (Spring 1984), pp. 46–53.

lawsuits, and lobbying to attempt to change or moderate factors that affect their markets. Kotler calls this use of power and public relations to enter blocked or protected markets **megamarketing**.<sup>3</sup>

While it is undoubtedly true that such marketing activities are possible and do take place today, the individual marketing decision maker should keep such opportunities in perspective. The decision to undertake a public relations program or legal action to change the nature of markets is a major undertaking and its outcome problematical, even for very large firms. Such decisions are generally made at the most senior levels of the firm. Those decisions are rarely con-

trolled by the individual marketing decision maker, but, instead, become a new uncontrollable variable as part of the corporate strategic direction.

### **SUGGESTIONS FOR FURTHER READING**

ABELL, DEREK F. "Strategic Windows." *Journal of Marketing* 42 (July 1978), pp. 21-25.

BONOMA, THOMAS V. "Marketing Subversives." *Harvard Business Review* (November-December 1986), pp. 113-18.

KOTLER, PHILIP. "Megamarketing." *Harvard Business Review* (March-April 1986), pp. 117-24.

ZEITHAML, CARL P., and VALARIE A. ZEITHAML. "Environmental Management: Revising the Marketing Perspective." *Journal of Marketing* 48 (Spring 1984), pp. 46-53.

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<sup>3</sup>Philip Kotler, "Megamarketing," *Harvard Business Review* (March-April 1986), pp. 117-24.