

# The Marketer's Micro-Environment

CHAPTER

# 4

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## Introduction

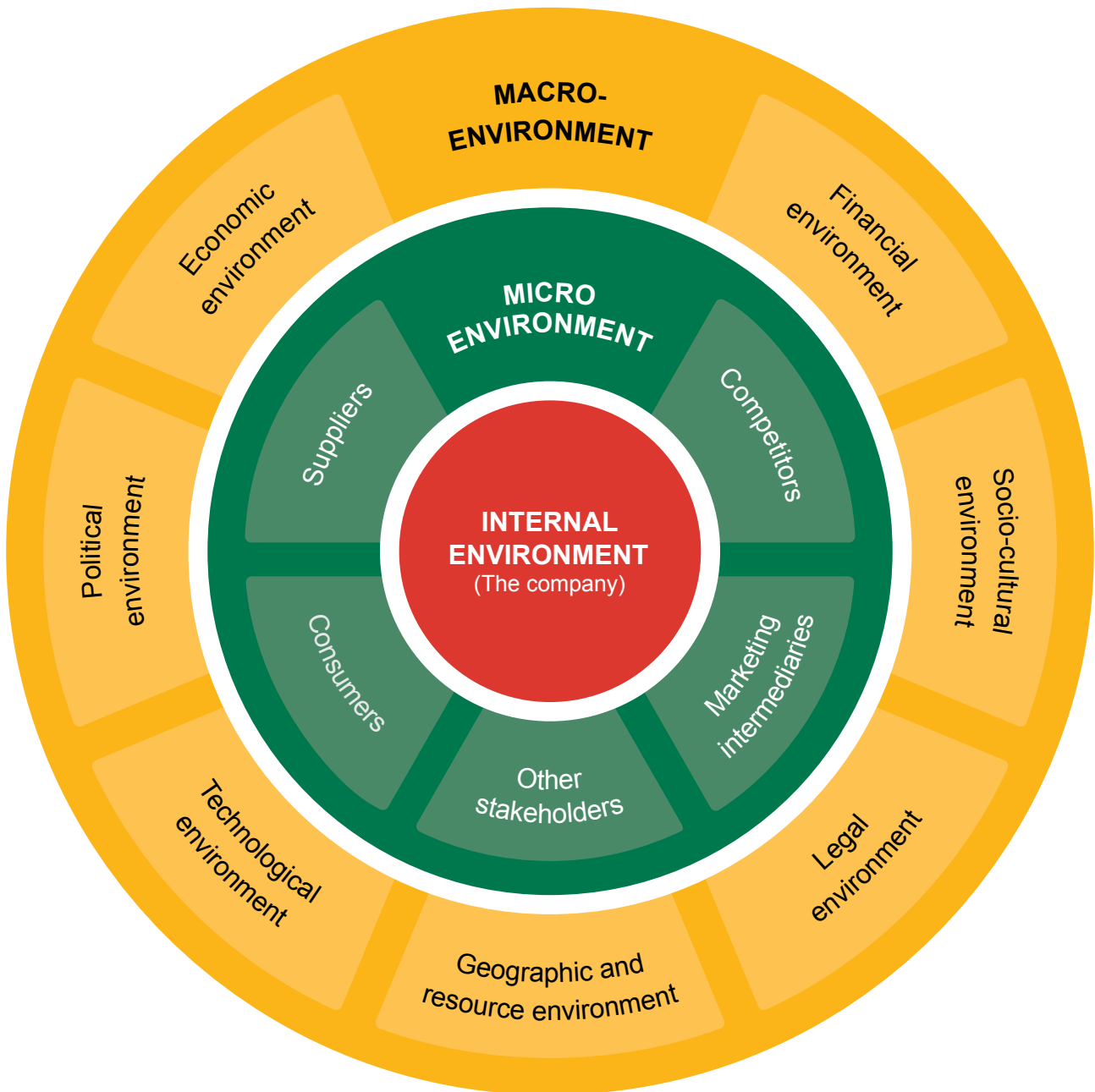
In this chapter, we discuss the marketer's world, also commonly known as the marketing micro-environment. The marketing micro-environment comprises various factors that a marketer has some influence over (to varying degrees). This environment includes the business itself as well as understanding the surrounding components that are crucial to building a strong strategy and gaining competitive advantage.<sup>1</sup> The micro environment is often discussed in conjunction with the macro environment (Chapter 8) and consumer landscape (Chapter 5), which consist of factors that influence the marketer, but are largely out of the marketer's direct control. The components of the marketer's micro-environment are the company itself (also called the internal environment), consumers, suppliers, marketing intermediaries, competitors of the company and other stakeholders. In this chapter, each component of the micro-environment is briefly discussed and the macro environment is discussed in Chapter 8. Figure 4.1 shows both the micro and macro environment.

## Internal environment (the company)

The company consists of all the departments within the organisation at which the consumer marketer works. The company has the potential to positively or negatively influence a marketer's ability to provide customer satisfaction. Examples of departments within an organisation include finance, research and development, accounting, human resource management, and production.<sup>2</sup> All the departments are interrelated and are designed to work together in order to achieve the company's mission, objectives, strategies and policies.

Synergy must be created between the various departments in a company, by which the collective effort of working together creates a greater impact than if each part worked in isolation. When designing a marketing strategy, marketing management is required to incorporate other departments, as they also have a significant influence on marketing decisions. Under the marketing concept (Chapter 1), all departments within a company should be consumer-oriented to enable the delivery of superior value and satisfaction.

Figure 4.1: The internal environment, micro-environment and macro-environment



## Consumers

At the end of every value chain is a consumer willing to make an exchange (usually money for product). Consumers are, therefore, central to the success or failure of a business. The business needs to ensure that consumers are satisfied. This satisfaction can then build towards repeat purchases (generally referred to as loyalty) and, ideally, positive word-of-mouth referrals. The five different types of customer markets that a business can operate in are basic consumer markets, business markets, reseller markets, non-profit/government markets and international markets.<sup>3</sup>

## Basic consumer markets

Basic consumer markets consist of individuals and households who purchase goods and services for personal use, such as toothpaste or a family car.

## Business markets

Business markets consist of businesses which purchase products with the intention of further processing or use in their production process. An example is when a farmer sells its crop to Pioneer Foods, which then makes White Star maize meal to sell through retail outlets such as Spar and Pick n Pay. The only transaction between a business and consumers is the final one; every other transaction is a business-to-business (B2B) or reseller transaction (see next point).

## Reseller markets

Reseller markets consist of businesses that purchase goods and services in order to resell them for profit-making. An example of reselling would be a spaza shop that purchases washing powder (in bulk) from a wholesaler in order to resell it to consumers.

## Non-profit/government markets

Non-profit/government markets consist of governmental departments and non-profit organisations that purchase goods and services in order to provide public services. An example of a government market transaction is when the police department purchases a car from a car dealership.

## International markets

International markets consist of buyers in other countries who take the form of consumers, producers, resellers and governments. An example of this is iron and steel exported from South Africa to other countries in order to be manufactured into finished products like cooking utensils.

Understanding consumer needs and wants is the focal point for every business, as it is the consumers who make purchases, contributing to profits. It is therefore vital to gain insight into consumer buying behaviour and purchasing patterns in order to ensure that your business remains relevant and provides value. Given that South Africa is a middle-income country, the needs of consumers vary significantly from the rest of the world. South Africa has one of the highest Gini coefficients in the world, which means that vast income inequality exists between its consumer markets. The upper-income consumers are very wealthy, but only make up a small proportion of the consumer market.<sup>4</sup> Most South Africans live in households with very low incomes and are heavily dependent on state support.<sup>5</sup>

## Competitors

Competition can be defined as the relationship between your organisation and other organisations which market products that are similar to or can be substituted for your products. There are very few companies that operate free from competition; this is therefore a vital factor in the market analysis. Companies need to identify who their competitors are and what they currently offer to consumers. A strong understanding of competitors will allow the company to position itself in the mind of the consumer (see Chapter 12) and ensure that it has competitive advantage.

There are five types of competitors that a company should be aware of at all times in order to fully understand their competitiveness in the market: direct competitors, indirect competitors, replacement competitors, distant competitors and potential competitors.

### Direct competitors

Direct competitors are companies that sell very similar products or services to the same target market. Two different brands of locally packaged rice would be direct competitors. This kind of competitor is also called a *brand competitor*. An example of this is a consumer looking to purchase an energy drink and having a choice between Red Bull or Play. Usually direct competitors need to be in a similar price range to be considered direct.

### Indirect and trade-off competitors

Indirect competitors are companies whose products or services are not identical, but satisfy the same consumer need. A consumer may decide to buy maize meal instead of rice. These products would compete in the starch or staple food category, even though they are substantially different products. Similarly, a consumer may want a snack and decide between a soft drink and a packet of chips. These are different products, but compete for the same snacking need. Indirect competitors are sometimes called *product competitors*, since they often fall into a similar product category but vary in features, benefits and prices. A sub-section of indirect competitors are 'trade-off' competitors. This kind of competition comes from completely different categories of product or service that compete for share of expenditure but do not fill the same direct need. For example, in resource scarce households, a family may choose between food and airtime for their mobile phone. While not substitutes in nature, they act as substitutes for share of expenditure for that household (See Figure 4.2).

## Replacement competitors

Replacement competitors are companies that sell different products or services to your company, but the result of the product is similar. Large gym and fitness brands will know that people deciding to buy gym equipment for the home or those who start training outdoors (mountain biking or jogging) could replace a consumer's need for a gym subscription. In this case, a mountain bike shop or home gym manufacturer would be a replacement competitor. This kind of competitor is sometimes called a *generic competitor*, as it offers very different products that are able to solve the same problem or satisfy the same consumer need. Another name for this type of competitor is a *total budget competitor*, as they compete for the limited financial resources of the same consumer's entire budget.

## Distant competitors

Distant competitors are companies selling similar products or services to different location demographics. This kind of competitor could be a direct or indirect competitor that has not entered the local company's market. For many years, Pepsi withdrew from South Africa (as a sanction against Apartheid) and remained a distant competitor to Coca-Cola in the country, even though they were a direct competitor in most other countries.

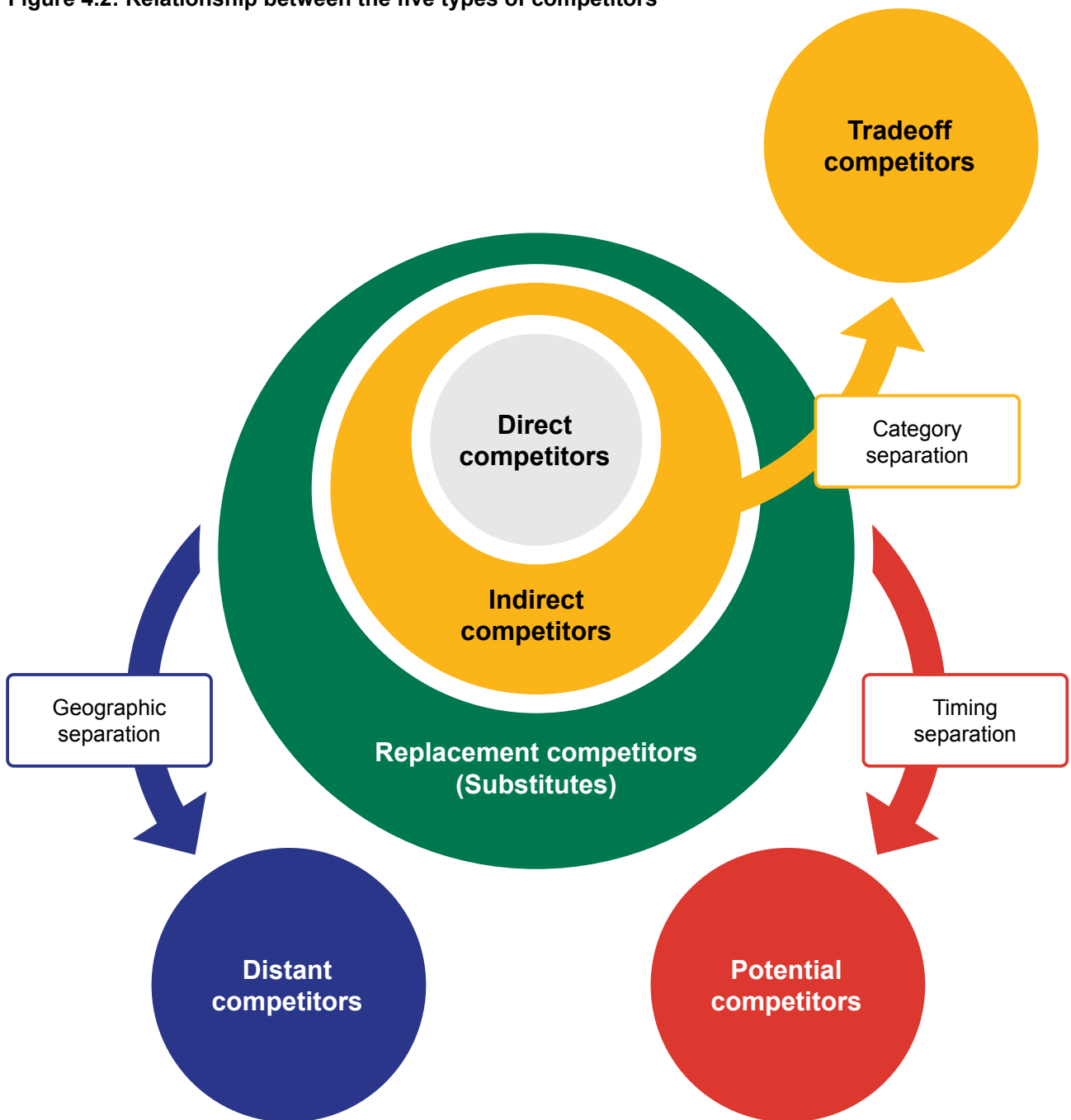
## Potential competitors

Potential competitors are companies that are not any of the types of competitors mentioned above, but could become them in the future. An example is Apple Inc., which has expressed a possible desire to produce cars in the future. This is not a current threat to motor manufacturers, but they will be watching these potential competitors carefully.

Figure 4.2 shows how the first three types of competitors are an immediate threat, while the other two are threats that are separated by geographic distance and time.

When discussing these various competitors, marketers sometime talk about 'share of wallet'. A share of wallet is the monetary value that a business captures from a consumer's total spending when obtaining products and services. Share of wallet accounts for both direct and indirect competitors. Many large companies try to build a portfolio of products that aim to capture more consumer expenditure (share of wallet). For example, a breakfast cereal producer may want to expand their product range to include snacks and meals for other times in the day in order to capture a larger share of wallet from their existing consumer base. In analysing your competitors, it is helpful to understand the different types of competitive structures.

Figure 4.2: Relationship between the five types of competitors



## Types of competitive structures

### Monopoly

A monopoly is a company that has no competitors. This form of company or organisation is the sole supplier of a product or service and almost no close substitutes exist. Monopolies often exist due to financial, regulatory or resource barriers to market entry. Eskom is an example where government ownership has created a monopoly in South Africa. In a monopoly, the company can set higher prices as there is little to no competition to put downward pressure on prices. In a monopoly, the consumer usually loses out; some governments therefore create legislation to prevent monopolies (as is the case in South Africa).

### **Oligopoly**

In an oligopoly there are a few competitors which offer homogenous or slightly differentiated products and some barriers to entry exist. An example of this is the cellular network industry in South Africa. A few competitors in this industry, such as MTN, Vodacom, Telkom and Cell C, offer the same product (i.e., cellular contracts, data packages and airtime). Some entry barriers for new networks would include mobile network infrastructure like signal towers, creating national awareness, call centres and the legal costs of starting a communications business. When a new competitor enters the market, most people are aware as the competitive landscape is generally well known when only a few brands exist (like when Rain entered the South African cellular network industry in 2019).

### **Monopolistic competition**

Monopolistic competition is a type of imperfect competition with differentiated offerings in the same category (for example, differentiated branding or quality). An example of monopolistic competition is that of major pharmacies in South Africa (for example, Clicks Pharmacy and Dis-Chem). Although the products sold by different companies (in monopolistically competitive markets) are similar enough to one another to be considered substitutes, they are not identical. This feature is what sets monopolistically competitive markets apart from perfectly competitive markets.

### **Perfect competition**

Perfect competition has an unlimited number of competitors with homogenous products and low barriers to entry. While pure competition is more hypothetical, spaza shops and street car wash services in many areas display elements of pure competition, as there is often little difference in product or service offering and price.

The existence of competition can have a positive effect on companies as they have to continuously innovate and stay current in order to provide value to consumers. Competition also ensures that companies offer affordable prices, otherwise they will lose their market share to other companies. Competitor analysis allows a company to make adjustments to their marketing strategy, where needed. Suppliers are discussed in the following section as the next component of the marketing micro-environment.

## **Suppliers**

Suppliers are individuals or businesses that provide the necessary resources required by a company to produce its goods and services.<sup>6</sup> Think of a South African fast food outlet like Chicken Licken. While a consumer may think of purchasing a chicken burger or a half chicken meal, the franchise needs to consider how it will get supplies of chicken, bread rolls, soft drinks, tomatoes, salt, sauces, plates, containers, cleaning services and ice creams. All these products fall under the supply chain (see Chapters 6 and 15 for more detail on supply chains).

The ideal situation for any company is to have efficient suppliers to help ensure that goods and services are produced and delivered efficiently and at a good price. Consumer marketers therefore need to monitor availability, quality, and delays and to ensure a timely response in the event of a crisis. Marketing managers are also required to watch their input prices closely, as an increase in input price will trigger an increase in selling price (affecting both profit and consumer satisfaction). Most consumers prefer affordable prices, and if prices rise above their means, they shift their loyalty to a similar but cheaper product. As a result, the company will make less sales than anticipated. A company needs to monitor the following factors when conducting business with suppliers:<sup>7</sup>

- Quality of products
- Reliability of individual suppliers
- Flexibility of suppliers in response to unforeseen demands from the company
- Bargaining power of suppliers
- General business ethics and conduct

It is vital to maintain a good relationship with suppliers in order to obtain a win-win situation for both parties. A company should aim to have its suppliers as business partners to ensure that the entire production process makes a joint effort to provide value and satisfaction to consumers. Companies also need to carefully vet their suppliers as any breach in ethics and conduct by a supplier may have an impact on the company's own reputation. Intermediaries are discussed in the following section as the next component of the marketing micro-environment.

## Intermediaries

Market intermediaries are entities that help a company to promote, sell and distribute its products to consumers. In a similar way to suppliers, intermediaries are role players that ensure delivery of value to consumers. It is difficult for large manufacturers to interact with their final consumers individually; thus distributors are used to bridge this gap.<sup>8</sup> The distributors are individual companies that assist in the flow of goods and services from manufacturers to final consumers. A company's effectiveness often relies on their partnership with intermediaries. The main kinds of intermediaries are resellers, dealers, physical distribution enterprises, communications and market research agencies, and financial intermediaries.

### Resellers

Resellers are distribution channels that help companies to locate consumers and sell goods to them. Primary examples include wholesalers and retailers (see Chapters 6 and 15). Wholesalers often purchase products directly from manufacturers and resell these products to smaller retailers who supply these items to end consumers. Large South African retailers (for example, Pick n Pay and Shoprite) source their products directly from manufacturers, which reduces the final selling price and provides greater value to consumers. Smaller informal retailers (for example, spaza shops or street traders) usually purchase from wholesalers and therefore struggle to compete with retailers on price.



## Dealers

Dealers are similar to retailers and wholesalers, but they usually provide a narrower assortment of products. Dealers generally provide after-sales services to consumers on behalf of manufacturers. An example is a Toyota dealer that sells both new and used cars and provides workshop services to consumers.

## Physical distribution enterprises

Physical distribution enterprises are concerned with the logistics of goods for sale. Companies must determine the fastest, cheapest and safest ways to store, and transport goods from their original location to their final destination. Distributors often do this as a specialised service for companies that are too small to own their own distribution networks. A company may, for example, import razor blades from Korea by the container load, but still need help to distribute these around the country to resellers (retail outlets). They may make use of an established distributor (for example, Barloworld) or may plan their own logistics through a transport and warehousing company (for example, Maersk). Building strong relationships within the supply chain can provide a powerful advantage in delivering value to consumers.

## Communications and market research agencies

Communications and market research agencies are tasked with functions such as advertising, package design, media, public relations and research for a company. While some larger companies may have internal capacity within their organisation to complete these tasks, most companies will outsource these functions. Many marketers use advertising and research agencies. A big company like Shoprite may use an advertising agency to help design promotional material, or Nissan South Africa may use a research agency to find out more about the car retail market in Gauteng.

## Financial intermediaries

Financial intermediaries include banks, insurance companies and credit enterprises that aid the company in financial management or insurance. A company like Old Mutual may provide insurance, among other services, while Nedbank may provide companies with business banking facilities. Access to credit in South Africa is important for small and medium-sized enterprises looking to grow.

In recent years, there has been a trend towards reducing the use of intermediaries between producers and consumers, with footwear companies like Hi Tech offering sales direct to the consumer (online through their website) in addition to retail intermediaries. Maintaining a good relationship with intermediaries is vital to ensure that goods and services are available to consumers at the right place, in the appropriate quantity and at the right time. Other stakeholders are discussed in the following section.

## Other stakeholders

There are other kinds of stakeholders that have an impact on the consumer marketer and their ability to achieve objectives. These stakeholders (sometimes known as publics) fall into the definition of the micro-environment, but not into any of the categories above. Some examples of these stakeholders include media public, general public, local public and citizen action publics.

### The media

The media includes newspapers, blogs, magazines (print and digital), radio (broadcast and internet) and television outlets (broadcast and digital). They carry news, features and editorial opinion that may impact the company. The media can be extremely valuable or a burden, since they typically carry news, features and editorial opinions, delivering them to consumers and other publics. Public relations agencies can be hired to help use the media to the marketer's advantage. Having a good relationship with the media can be particularly helpful during crises.

### General public

An enterprise should consider the general public's attitude towards its products and services. The public perception of the business, its brands, and products and services directly impact consumers' buying habits. Marketers can keep track of public opinion through opinion polls and social media sentiment analysis.

### Local community

The local community comprises neighbourhood residents and community organisations. Large businesses may appoint a community relations officer to meet with the community, answer questions and manage contributions to worthwhile causes.

### Citizen action and public interest groups

The decisions a marketer makes will sometimes be questioned by citizens, environmental groups, minority groups, and others. A public relations department can help a company stay in touch with citizen action and public interest groups. A business can construct strategic marketing plans for some or all of these stakeholders. Marketers need to make judgements on where to spend time and resources. It is to be noted that some of the actions of the public may create problems for the business while others may create opportunities.

## Conclusion

In this chapter we surveyed the micro-environment of the marketer. The chapter introduced the concept of both the micro and macro environment, but then focused on the former. The concepts of the company, competitors, suppliers, intermediaries and other stakeholders were introduced, defined and contextualised. In Chapter 8, the macro-environment, which largely lies outside of the direct influence of the marketer, is explored.

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<sup>1</sup> Mpinganjira, M., 2012, 'The Marketing Environment'. In Strydom, J. (ed.), *Introduction to Marketing*. 4th edn., Juta and Company Ltd, Cape Town

<sup>2</sup> Kotler, P. & Armstrong, G., 2010, *Principles of Marketing*. 12th ed. Pearson Education South Africa, Cape Town, South Africa

<sup>3</sup> Strydom, J., 2016, *Introduction to Marketing* 5e. 5th ed. Juta and Company Ltd, Cape Town, South Africa

<sup>4</sup> Statistics South Africa, 2010, *Monthly Earnings of South Africans, 2010*, viewed 6 December 2017 from <http://www.statssa.gov.za/publications/P02112/P021122010.pdf>

<sup>5</sup> Statistics South Africa, 2015, *Methodological report on rebasing national poverty lines and development of pilot provincial poverty lines for South Africa*, viewed 6 December 2017 from [https://www.assaf.org.za/files/ASSAf%20news/Events%202015/1%20-%20The%20South%20African%20National%20Poverty%20Lines%20\\_%20Simelane.pdf](https://www.assaf.org.za/files/ASSAf%20news/Events%202015/1%20-%20The%20South%20African%20National%20Poverty%20Lines%20_%20Simelane.pdf)

<sup>6</sup> Pride, W. M. & Ferrell, O.C., 2010, *Marketing*, 15th edn., Nelson Education Ltd., Canada

<sup>7</sup> Pride, W.M. & Ferrell, O.C. 2010. *Marketing*. 15th ed. Nelson Education Ltd, Canada.

<sup>8</sup> Pride, W. M. & Ferrell, O.C., 2010, *Marketing*, 15th edn., Nelson Education Ltd., Canada.