Chapter 2

THE MARKET AND ITS ENVIRONMENT

-- SOLVED QUESTIONS --

1. **Differences between the current market, potential market, objective market and product-market.**

- Current market, established by the demand on a specific product.
- Potential market, the maximum number of buyers which can be targeted by the commercial offer and which is available to all of the companies for a determined period of time.
- Objective market, the one in which a company offers its products.
- Product-market, defined by the products regarded as substitutes, since they satisfy the same needs and the consumer sees it that way.

2. **Types of markets according to the number of competitors.**

- Monopoly: there is only one offerer and many demanders. The entry barriers are numerous. For example water services in a city.
- Oligopoly: there are few offerers and many demanders. There are considerable entry barriers. For example the mobile phone market in Spain, where there are a limited number of offerers due to the legal and structural features of the market.
- Monopolistic competition: the most common situation. There are many offerers with differentiated products and many demanders. There are few entry barriers. For example the domestic appliances market or grocery stores.
- Perfect competition: the number of buyers and sellers is also very high, but the product exchanged is homogenous as is the case with the cereal market or real estate market. There are no entry barriers.

3. What is a franchise?

It's a contractual relationship that covers a wide range of service provision, supply of goods, and allowing for the use of the brand on the part of the franchiser. On the other hand, the franchisee pays a set fee at the beginning of the relationship and gives a percentage of sales to the franchiser, i.e. McDonald's.

4. What is Consumer Confidence Index?

This index measures the predisposition to spending by consumers. The Spanish Official Credit Institute (ICO) publishes a monthly Consumer Confidence Index (ICC) taken from a survey of 1,000 consumers, throughout Spain, who are asked to judge whether their family's economic situation, the Spanish economy and employment is better or worse regarding the one in the six months previous to the survey and their expectations for the following six months. The consumer confidence indicator is calculated through an arithmetic average of the balance between the current situation and future expectations. The ICO-ICC can throw figures of between 0 and 200. A reading of over 100 indicates a favourable/optimistic perception of the consumers regarding the issues asked and under 100 a negative/pessimistic one.

5. Point out some of the cultural trends in the world mentioned in the chapter.

A) Body-Health

- Tendency to improve physical appearance and looks
- Tendency to improve state of body health
- Tendency to accept the use of stimulants
- Tendency towards natural thing, nature
- Tendency towards sports activities
- Tendency towards self-medication

B) Of an individual nature

- Tendency to incorporate beauty into everything around us
- Tendency towards mysticism and introspection
- Tendency towards an individualised religion
- Tendency towards an appreciation of free time

- Tendency to live day by day
- Tendency to develop personal creativity
- Tendency towards hollistic development and self-made life
- Tendency toward personalism
- Tendency to simplify life

C) Of an external nature

- Tendency to familiarity
- Tendency towards romanticism
- Tendency towards new social and cultural forms
- Tendency to consume
- Tendency towards pacifism and brotherhood
- Tendency towards environmentalism

D) Liberal –Progressive

- Tendency towards more liberal sexual conduct
- Tendency to an equality of the sexes
- Tendency towards novelty and change
- Tendency towards an importance of youth
- Tendency towards more social permissiveness
- Tendency to accept an accelerated technological evolution

6. What are the key questions to analyze the competence of the company?

- Who are the company's/brand's competitors? This analysis implies identifying the structure and limits of the market.
- How intense is the market competition?
- How does competition affect the evolution and structure of the market?
- How do the competition's decisions influence marketing decisions?
- How do companies obtain and keep a competitive advantage?

7. Reasons to impulse the internationalization of the company.

1. Difficulties in the domestic market: economic recession, a drop in sales, high stock levels, strong competition, adverse demographic changes, etc.

2. Opportunities in markets abroad: an unsatisfied or inadequately served demand.
3. The possibility of managing scale economies in the production.
4. Exporting technology and innovations.
5. Increasing the product's lifecycle.
6. Improving the company's image and increasing the company's influence.
7. Benefiting from fiscal policies.
8. Existing commercial agreements.
9. The creation of economic communities, such as: EU, NAFTA and Mercosur.

8. What is benchmarking?

It's a management technique through which an organization compares its efficiency levels and certain internal practices to external standards to copy and correct the possible existing deviations, and, through permanent action and improvement plans, identify innovation opportunities, make effective changes in the business with the aim to reach leading positions, levels of excellence and obtain the profitability desired.

9. What is macroenvironment?

It's a set of factors in the environment that do not have an immediate influence and affect, not only commercial activity, but also other human and social activities. For example, demographic, economic, cultural, social, legal, political, technological and environmental factors.

10. What is microenvironment?

It's a set of factors in the environment that are closer to the exchange relationship between the company and the market, its influence is more immediate. For example, suppliers, middlemen, competitors and commercial institutions.