Fundamentals of Marketing

Instructor's Handouts

Chapter 2

The market and its Environment

Chapter Objectives

- Understanding the concept of market and its elements.
- Getting to know the classification of markets.
- Distinguishing the environment factors, micro and macro, that influence the company and the market
- Identifying the basic principles of competition and its influence on marketing decisions
- Establishing the criteria and classifying the management strategies in the environment

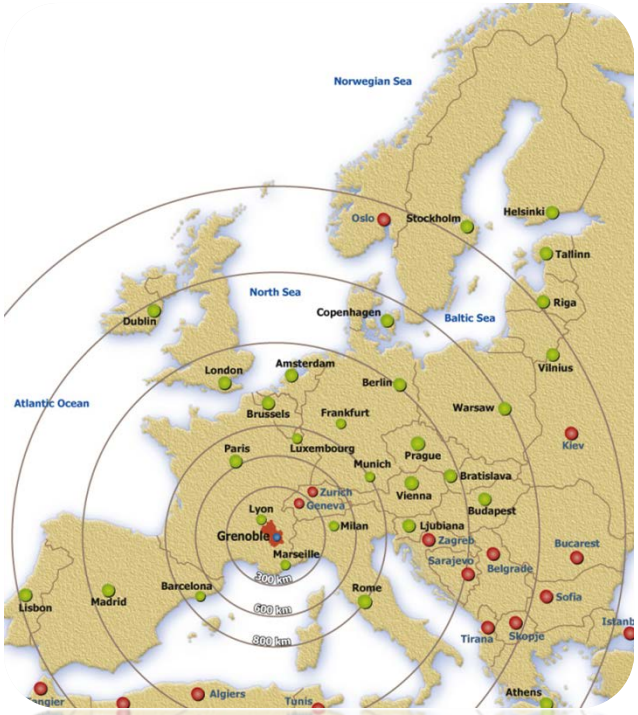
2.1 The Concept of Market

- The market can be defined as the physical or ideal place where an exchange relationship takes place.

- From a marketing standpoint, the market is defined by a set of people who need and desire a specific product or service and have the legal and economic ability to buy it.

2.1 The Concept of Market

- We can distinguish different types of markets:
  - **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.



2.2 Market Classification

CRITERION	TYPE OF MARKET
a) Type of buyer	Private Companies Public bodies Non-profit organizations
b) Type of product	Farming Raw materials Manufactured Services Finance Ideas
c) Type of competence	Monopoly Oligopoly Monopolistic competence Perfect competence
d) Intensity of supply and demand	Buyers' markets Seller's markets
e) Type of exchange	Auction, bidding Tenders Relationship Contractual Franchise Legally binding
f) Type of demand	Consumer market Services Organizational markets
g) Geographical scope	Local Regional National International

2.3 The Macroenvironment

- The **macroenvironment** factors do not have a cause-effect relationship regarding marketing activity.
- They are generic and exist independently to whether there are commercial exchanges taking place or not.
- Companies, however, can, on the basis of these, aim their marketing strategy at some of their aspects.
- On the other hand, a thorough knowledge of these variables allows for being a step ahead of the competition and market changes and to identify business opportunities, as well as hidden threats.

2.4 Competition

- From a marketing point of view, it is important to know the effects our competition's decisions have on the marketing strategy and results of our company.
- Basic principles regarding competition
  - Any competitor who perseveres and survives has a unique advantage over the others. If it weren't this way, they would be eliminated.
  - The more similar the competitors among them, the stronger the competition is.
  - If the competitors are different and they coexist, each one must have a different advantage over the other.
  - Coexisting competitors must have a balance. Said balance can exist only when any change produces forces that tend to restore the conditions prior to the alteration.

2.5 Global Markets

- The reasons which can give impulse to international commercialization are of a different nature and may be narrowed-down to the following:
  - Difficulties in the domestic market: economic recession, a drop in sales, high stock levels, strong competition, adverse demographic changes, etc.
  - Opportunities in markets abroad: an unsatisfied or inadequately served demand.
  - The possibility of managing scale economies in the production.
  - Exporting technology and innovations
  - Increasing the product's lifecycle.
  - Improving the company's image and increasing the company's influence.
  - Benefiting from fiscal policies.
  - Existing commercial agreements.
  - The creation of economic communities, such as: EU, NAFTA and Mercosur.