

# Analysing the environment

(Opportunities and threats) and appraising resources  
(strengths and weaknesses)

## LEARNING OBJECTIVES

After reading this chapter you will:

- appreciate the importance of analysing the environment in the development of strategic marketing plans
- understand the range and types of key environmental factors
- be familiar with a systematic approach to identifying forecasting and appraising environmental forces and factors
- appreciate the key importance of assessing competitors and competitive industry structure in the development of strategic marketing plans
- be aware of the importance of appraising the resources of a company
- comprehend how this appraisal should be organized and conducted
- recognize how Strengths and Weaknesses assessment feeds into and affects the process of strategic market planning
- understand how to translate the internal appraisal into an assessment of the Opportunities and Threats elements of the SWOT analysis

## INTRODUCTION

In Chapter 1 we outlined the nature and significance of strategic marketing together with an introduction to the essential components of analysis, planning, implementation and control required to develop a strategic approach to this function. We now return to this strategic theme by looking at the importance of analysing the environment for strategic marketing. Changes and trends in the environment are the primary source of major marketing opportunities and threats so it is essential that the strategic marketer monitors, interprets and responds to such changes and trends. However, the word 'environment' encompasses many factors, often complexly linked, which affect the survival of any enterprise. Specifically, this chapter examines the range of environmental factors, discusses how to assess the impact of these factors, and suggests a framework for environmental scanning.

The identification of opportunities and threats represents one half of SWOT analysis. The other half entails the appraisal of organizational resources in order to ascertain strengths and weaknesses. As shown in Chapter 1, assessment of possible opportunities and threats and the appraisal of strengths and weaknesses only make sense if we consider both internal and external factors together. It is difficult for the individual company to assess the strategic implications of environmental trends and changes and the extent to which they will pose opportunities or threats, without considering these trends and changes in the context of organizational resources. In addition, selection and implementation of strategies are dependent on organizational strengths and weaknesses. Resource analysis and assessment of organizational strengths and weakness that stem from this analysis are a key task of strategic marketing management. This important task poses a difficult and complex dilemma.

## IMPORTANCE OF ANALYSING THE ENVIRONMENT

Consider the following:

- Problems with processing nuclear waste at the Sellafield plant in Cumbria in the UK has had a profound effect on attitudes towards the nuclear power industry.
- The future of the pound sterling remains uncertain whilst Britain decides whether or not it will ultimately recommend adoption of the Euro currency.
- The near collapse of the banking system in 2009 had worldwide repercussions.
- Global warming and the melting of the ice caps has had a profound effect on attitudes towards 'green issues'.

- In the UK more than half of homes have access to the Internet and the percentage is growing.
- Discussions about expanding the European Union to include more former Eastern European bloc countries and Turkey continues.
- Marketers have been faced with an expansion in the 'grey market' where their products and brands are bought and sold in international markets outside conventional channels and therefore their control.

These are a small selection of 'environmental' forces and factors that have had (or will have) an impact upon the marketing strategies of many companies. Not every company will be affected by these specific trends and changes, nor will all companies be affected equally. What is certain is that changes and trends in the environment of a company, such as those listed, give rise to some of the most significant opportunities and threats that an organization faces. Companies that have failed to recognize and take account of changes in their environment have failed to capitalize on opportunities or have realized that their markets have disappeared with the closure of factories and redundancies.

The importance of environmental analysis is self-evident, but if further confirmation of this importance is required this can be underlined by tracing through an example of failure to identify and respond to environmental change.

Marks & Spencer were, until the late 1990s, one of the most successful clothing and food retailers in the United Kingdom. Since then, the company has faced increasing problems with regard to sales and profits. Marks & Spencer are still faced with sluggish sales and reduced market share. There are several reasons for this, but it has been suggested that the company has not kept pace with changing market and customer needs. In particular, critics have argued that many of its product ranges are not fashionable enough. Certainly, over the past decade the company has faced increasing competition both from domestic and overseas retailers who have entered the UK with exciting merchandising and retail formats. In the food area, the competitive advantages which Marks & Spencer once had, such as being amongst the first to offer good quality ready-made/chilled foods, are being eroded. The company now recognizes that it is operating in a different trading environment and has embarked on a series of major changes in its approach to sourcing, merchandising and marketing. It is experimenting with new formats for its stores, new merchandising and ranges and major television advertising campaigns. In addition the company has made several major changes to its management structure from the chief executive down. It remains to be seen whether these changes will be sufficient to restore its former market position.

This example illustrates the negative effects or threats posed to companies by changes in their marketing environment, or rather their failure to respond to these changes. Equally, environmental trends and changes can give rise to major marketing opportunities, even to the extent of spawning whole new industries.

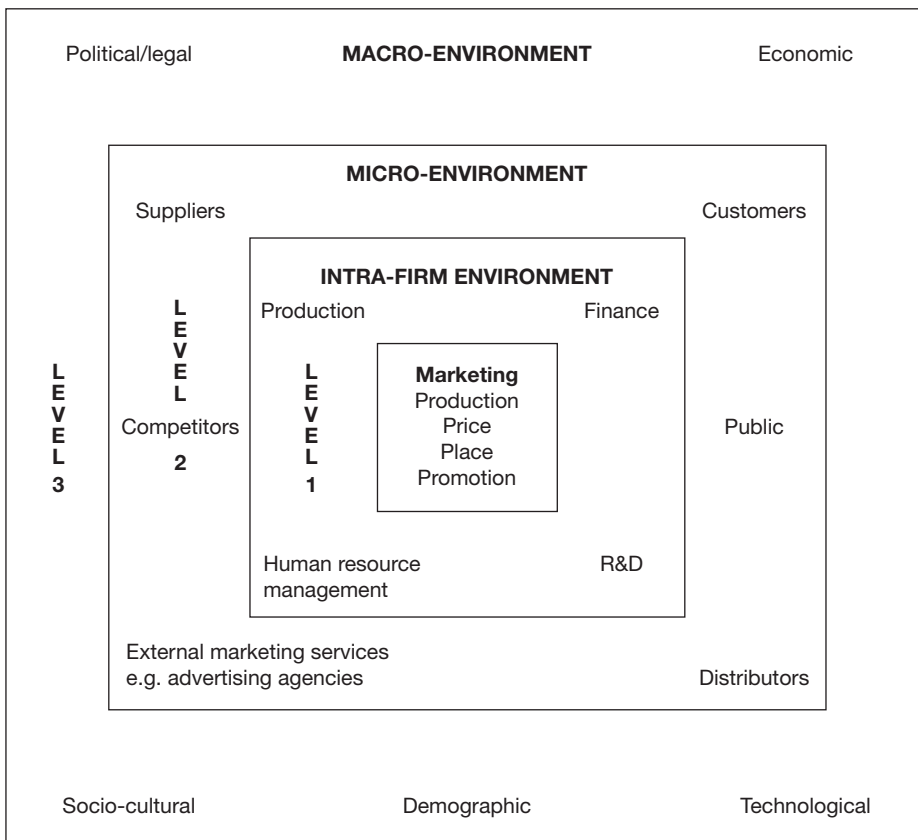
An example of major opportunities arising out of technological, economic and social changes has been the growth of the Internet. Technological developments linked to social and economic changes such as a desire to work more from home, have combined to facilitate the growth of new companies, using Internet technologies to market their products and services direct to customers. Companies like Amazon have shown exceptional growth.

This illustrates that environmental trends and changes are important in posing major opportunities or threats to organizations. Some of these environmental trends and changes are long term and take

place gradually, but some take place extremely rapidly and are more difficult to predict. The environment comprises a wide range of factors, the relationships between which are complex. Our first step in analysing the environment, therefore, is to identify and classify environmental influences.

## RANGE AND LEVEL OF ENVIRONMENTAL FACTORS

The term 'environment' in the context of strategic marketing planning can be used in a variety of ways. Environmental analysis involves analysing three key environments: the external environment (i.e. macro-environment); the customer environment (i.e. micro-environment); the organization's internal environment (i.e. intra-firm environment). Marketers distinguish between different categories of environmental factors in this way. This distinction is drawn by conceptualizing successive 'layers' of the environment, as shown in Figure 13.1. This illustrates examples of key environmental influences for each successive 'layer' of the marketing function's environment. Examples of environmental



**FIGURE 13.1** Layers in the environment

factors shown at each level are not the only factors, but they represent what are felt to be the key factors pertaining to each level of the environment in turn.

## INTRA-FIRM ENVIRONMENT

Firms have finite resources. The marketing function has to compete with other management functions to obtain resources needed to complete its task. Similarly, the marketing function must co-operate with these other functions. This interaction and interdependency between the marketing function and other functional areas of management is the **intra-firm environment**. To understand the influence of factors in the other two layers of the environment, it is important that marketing has the ability to carry out its role of monitoring and adapting to these factors as influenced by its relationship with other functions within the company. Marketing managers make decisions that have a bearing on other functional areas of the firm. Similarly, decisions taken by other departments directly affect the ability of marketing to perform its role.

Chapter 14 examines organizational aspects of strategic marketing planning and considers how these intra-firm elements of the environment affect the marketing function.

## MICRO-ENVIRONMENT

These middle-level environmental factors, which impinge on marketing management, comprise factors which unlike the lowest level intra-company components lie outside the normal boundaries of the organization. Unlike the top level, macro-environmental factors, which we shortly examine, the organization has some measure of control over its **micro-environment**. The more important elements of the micro- or task-environment include: competitors, distributors, suppliers, customers and external marketing services, e.g. market research companies and advertising agencies, and the organization's publics. Micro-environmental factors are self-explanatory, although their significance to strategy formulation is such that many of them, including competitor, customer and distributor analysis, are considered in more detail later. The micro-environmental factor 'publics' is any group that has an impact on a company's ability to achieve its objectives.

As would be expected from such a broad definition, a company's public(s) are diverse and include groups such as the local community, the general public, shareholders, the financial community in general and governments.

The key points for the marketing strategist are to acknowledge the importance of such publics to the process of planning and ensure that relationships with significant publics are effectively managed. Traditionally these relationships have been the concern and responsibility of the public relations function in companies, but many now think that this is too narrow a view and that everyone in a company can contribute to effective relationships with an organization's publics.

An example of the importance of a company's publics in developing strategic marketing plans is the increased influence and power that company shareholders now have. At one time the interest of shareholders was restricted mainly to the level of financial return and profits which they received from their investment. Increasingly, shareholders are taking a greater interest in how companies are managed, including their marketing strategies.

## MACRO-ENVIRONMENT

We have considered those environmental forces and factors that are within the marketing function's organizational boundaries or in its immediate task environment. The top level of environmental factors comprises broader factors in the wider **macro-environment** of the organization over which the individual company has little or no control. It is from changes and trends in these macro-environmental factors that the most significant and far-reaching marketing opportunities and threats for the organization will stem. These are now discussed in more detail.

### Socio-cultural environment

Changes and trends here present significant challenges to the strategic marketing planner. Basic beliefs, attitudes and values are shaped and conditioned by the society in which people grow up, and their general behaviour, including purchasing behaviour, is influenced by societal and cultural norms as discussed in Chapter 2.

Cultural and social values are firmly established within a society and are difficult to change. If and when they do change, they do so only slowly. In the short term they should be treated as parameters within which marketing strategies are formulated. Over longer periods we can expect some social and cultural values to have changed and these include changes in attitudes towards credit, an increasing awareness of and interest in healthy lifestyles and changes in attitudes towards women in society. Although core cultural and social values change relatively slowly some changes are more rapid e.g. attitudes towards work and leisure, the place of women in the home and at work, bringing up and disciplining children and sexual attitudes and behaviour. In some societies, political, religious and economic forces and factors still combine to limit the nature and speed at which social and cultural changes take place.

In the UK, Channel 4's *Big Brother* programme has been very successful. The programme centres on continuously observing a group of selected people living together in a house, with each week a member of the group being nominated for expulsion by the others. The programme attracts large viewing audiences, while at the same time making its participants overnight celebrities even when they are expelled. The format has been imitated by other channels including the popular *I'm a Celebrity: Get Me Out of Here*. The format of such programmes and their content would probably never have been envisaged, and certainly not have been as successful, even ten years ago. Essentially, the participants in the programme have no privacy whatsoever. The camera observes and records them 24 hours a day, seven days a week. This observation extends into the most private activities of the group, and is effectively an invasion of privacy.

The surprising success of the programme is in part due to the fact that it was a product of its time. There was a demand for this sort of voyeuristic entertainment. The somewhat ruthless nature of the expulsions satisfies some of the viewing public with regard to what is now a more aggressive and individualistic approach in society.

### Political/legal environment

The outcome of political decisions can often be seen in the economic policies of governments. In the UK, major marketing opportunities and threats in recent years have stemmed from the policies and

legislation of successive governments irrespective of their political hue. For example, Margaret Thatcher and then John Major's Conservative Government with its belief in the free market mechanism created significant marketing opportunities for many companies and threats for others through its policies of privatization. The Labour Government of Tony Blair and Gordon Brown which replaced it similarly created marketing opportunities through its policies regarding public-private co-operation and funding in many sectors of the economy. For the marketing strategist, what matters in a planning context is not whether these and other policies and the legislation which has accompanied them have been 'right', but more the implications for marketing strategy. Indeed, the 'melt down' of the world economy in 2009 caught all governments unawares. Not only must strategies be planned to take account of existing policies and legislation, but account must also be taken of likely future changes. It is important to realize that the political and associated legislative environment is of great significance to the marketer and is likely to have a direct bearing on the formulation of marketing strategy.

## Economic environment

This is closely related to the political/legal environment and the marketing strategist must understand the variety of economic variables that can shape marketing plans.

Rates of inflation, interest rates, exchange rates, industrial output, levels of disposable income and the balance of payments are some of the factors of concern to marketing management because these influence costs, prices and demand. Not just domestic, but international economic developments and trends must be considered.

The Euro issue still dominates economic debate in the UK, and although the Conservative arm of the Conservative/Liberal Democrat coalition Government favours keeping the Pound Sterling, the Liberal Democrats favour entry to the Euro, so commitment to enter the single currency still remains. Therefore, this aspect of the economic environment continues to be a subject of debate and an area of uncertainty for companies with regard to their future planning.

## Technological environment

This is a major environmental influence on marketing strategy and its influence is manifested in terms of developments and breakthroughs in technology that are the basis for new products and even new industries. Home computers, compact disc players, video recorders, i-pods and electronic cameras are just a few of the products which have emerged in recent years. Biotechnology, information technology and energy conservation are some of the new industries.

Equally important is the fact that technology also affects the way marketing is practised; e.g. in the marketing research area questionnaires can be designed and administered directly via computer terminals. Such IT developments have enabled the use of sophisticated forecasting techniques. In retailing, electronic point of sale (EPOS) data capture is now used by retailers through laser checkouts and direct transfer of funds.

Technological changes affect the way products are produced. Robotics, flexible manufacturing systems and fully automated factories are examples of the ways in which the basis for competitive advantage can be changed. So ubiquitous and far-reaching have been these technological developments that virtually every area and aspect of marketing is affected and the modern marketer must be aware of such trends and changes together with the implications for their businesses.

## The physical environment

Sometimes referred to as the 'natural' or 'ecological' environment, this element of an organization's environment was, until the end of the last century, felt by many strategic planners to be of little direct relevance to the formulation of future strategies. This was primarily because it was assumed that it had little direct effect upon organizations. Recent trends and events have shown this assumption to be ill founded and myopic.

As long ago as 1962 Rachel Carson<sup>1</sup> warned of the dangers to the physical environment from industrial and commercial activities. Frequently such warnings were dismissed on the grounds that they represented the views of a small number of 'environmentalists' who were misguided or overly pessimistic. This 'small' number of critics proved to be in the vanguard of what has now become a popular, powerful and global movement concerned to protect the natural environment in which we live. We each have our views on issues such as the use of the world's natural resources of minerals, forests and water as well as some of the most fervently contested contemporary issues regarding phenomena like the 'greenhouse' effect, and the depletion of the ozone layer. Regardless of personal views, they have become issues for the strategic marketing planner. We have witnessed adapted aerosol products that are now 'ozone friendly', and increasingly, products and technologies are designed to be energy efficient; degradable plastic packaging is now widely available as is recyclable packing, and car manufacturers are working towards completely recyclable vehicles.

## ENVIRONMENTAL SCANNING

Discussion has concentrated on reviewing the significance of environmental factors as well as a format for classifying different levels and factors associated with each level. These may impact on different industries in different ways and to a different extent. Environmental trends or changes may affect an organization and its strategic marketing planning in different ways from other organizations. Trends and changes in the environment give rise to marketing opportunities and threats. These observations suggest the requirement for an effective **environmental scanning** system: effective, in the sense of improving the process of strategic marketing planning. These requirements are:

- 1 an ability to identify environmental forces and factors at any point in time that are of significance to the organization, i.e. which environmental forces are likely to pose the most significant opportunities and threats to the company;
- 2 an ability both to monitor and forecast future trends and changes in these factors;
- 3 the ability to interpret the significance of these environmental trends and changes i.e. their implications for future marketing strategies;
- 4 the ability to develop and implement marketing strategies to respond to environmental trends and changes.

The last of these requirements is not only a requirement of an effective environmental scanning system, but also part of a broader set of issues involving the ability of the organization to cope with environmental change, encompassing organizational resources, flexibility and the quality of



management. This final element is included because it illustrates the point that the sole purpose of a system of environmental scanning is that it should improve strategic marketing plans in the sense of improving the opportunity for organizational success. We now focus on requirements for an effective environmental scanning system.

## Organizational practice and environmental scanning

One of the earliest studies on environmental scanning in organizations was that conducted by Francis Aguilar<sup>2</sup> and published in 1967. Based on a sample of selected chemical companies in Europe and America, Aguilar identified four basic patterns for scanning information about the environment:

- 1 *undirected viewing* representing the most unsystematic approach to environmental scanning, composed of 'exposure without a specific purpose';
- 2 *conditioned viewing* adopted by companies who are aware of some key factors and trends in their environment, but do not undertake active search;
- 3 *informed search* where companies actively collect information on their environment for specific planning and decision-making processes, but do so in an informal and ad hoc manner;
- 4 *formal search* representing the most highly developed environmental scanning practices. Aguilar found that some companies had a structured process for the collection of specific information for a specific purpose.

Aguilar's study showed there was a lack of a systematic approach to environmental scanning in the companies he studied, with few conducting formal searches.

Over time, more and more companies have come to develop formal scanning systems. By the mid-1980s, a study by Jain<sup>3</sup> suggested that although still evolving, more and more companies were beginning to develop formalized environmental scanning procedures. Jain identified four distinct phases in this evolution, namely:

- Phase 1: Primitive* where information is noted with no purpose and effort to scanning and little discrimination used to distinguish between strategic and non-strategic information;
- Phase 2: Ad hoc* where there is no formally planned scanning, but increased sensitivity to information on certain issues or events which may be explored further;
- Phase 3: Reactive* where scanning is still unstructured and random, but often specific information is collected with a view to making appropriate responses to markets and competition;
- Phase 4: Proactive* where scanning is structured and deliberate using pre-established methodologies with a view to predicting the environment for a desired future.

Perhaps the overriding reason for the slow development of formal environmental scanning and appraisal systems is that it is difficult to achieve. However, modern companies have developed skills in this area. In addition, although it was once a neglected area in the planning literature, Johnson *et al.*<sup>4</sup> illustrate how environmental appraisal is now the subject of more research as its importance to strategic planning has become appreciated. The development of more 'proactive' appraisal systems requires the establishment of systematic procedures designed specifically to input into strategic marketing decisions. We now consider one such system.

## A framework for appraisal

A number of frameworks for environmental appraisal have been developed. In our view, one of the most useful of these is that proposed by Jain<sup>5</sup> and shown in Figure 13.2.

The six key steps are as follows:

- 1 Seek to maintain an awareness of broad trends in each of the key environmental factors outlined earlier. At this stage, scanning need not be detailed so long as trends are monitored.

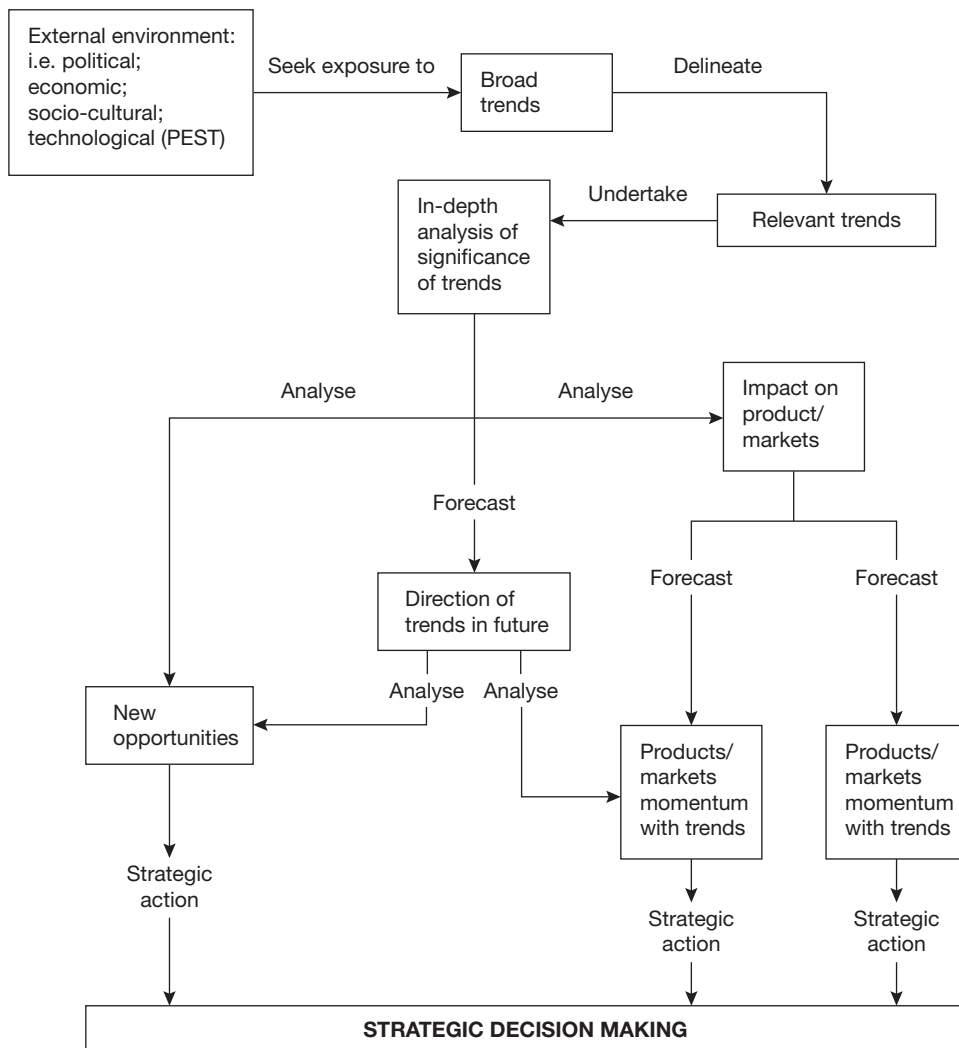


FIGURE 13.2 Environment appraisal and strategic planning

- 2 Delineate those trends which are deemed most relevant – i.e. to have potential significance to the company – for further more detailed investigation.
- 3 Undertake an in-depth analysis on the possible impact of these selected trends on the company's current product or markets. In particular, this analysis should delineate the extent to which the trend is an opportunity or a threat and the potential magnitude of its impact. In addition, an analysis should be made of the extent to which the trends isolated open up new opportunities.
- 4 Forecast the future direction of the trends isolated.
- 5 Further analyse possible effects of the forecasted trends on future product or market momentum: (a) on the assumption of no action, (b) on the assumption that trends are responded to.
- 6 The final step is to assess the implication of the preceding analysis for overall strategic decision making.

This framework for environmental appraisal represents a structured and logical approach to this procedure. Moreover, it fulfils many of the requirements outlined earlier for an effective appraisal system. However, there are still practical problems in this appraisal process which we need to consider further.

## STRATEGIC DECISION MAKING

We have seen that by definition the 'environment' encompasses all events and trends outside the boundaries of the marketing function. A key problem in environmental appraisal is the identification of the most significant of these trends for further analysis. Jain suggests there are no 'hard and fast rules' for distinguishing between what is relevant and irrelevant. A useful approach to identifying what to scan and which environmental trends and changes are relevant is the business definition for a strategic business unit.

For example, imagine that a strategic business unit of a large insurance company has defined its part of the business as being 'the provision of peace of mind insurance solutions to the private motor car owner'. The following might be some of the more important environmental trends and changes for the strategic business unit to monitor:

- trends and changes in levels and types of private car ownership together with the factors affecting these;
- trends and changes in car usage levels and patterns together with the factors affecting these;
- strategies of major competitors;
- potential new entrants to the market;
- changes in legislation that might affect the types of insurance cover legally required;
- technological developments which might affect the way in which, say, customers purchase private car insurance.

These are examples but they illustrate the potential range and complexity required in environmental scanning.

Although business definition provides the key to isolating relevant trends (any one of the environmental factors just described would give rise to major environmental opportunities and threats) identifying relevant areas requires a considerable degree of creativity and foresightedness. Some trends or changes are obviously significant, e.g. the emergence of a new and potentially strong competitor, but the environmental scanning process also requires judgement and experience in spotting opportunities and threats. Often a seemingly unrelated trend or change can be highly significant in the long run.<sup>6</sup>

Who would have thought that one of the most significant threats to the publishers and distributors of books would have come from the Internet? After all, traditionally the book-buying public has selected and purchased books by browsing through them on the booksellers' shelves. From nothing in this market, the Internet bookseller Amazon has taken a substantial market share in next to no time. Initially, probably considered as simply an upstart in the industry by the large publishing and book distributing organizations, Amazon has, through its success, forced these more traditional companies in the market to consider them as a powerful competitive force.

This example not only shows the need for constant vigilance in environmental scanning, but in addition illustrates the need to think creatively about what is relevant.

## FORECASTING THE FUTURE

Strategic market planning is concerned with plotting the future of a company. It is not enough to wait until a major environmental threat has emerged before taking action. The company requires not only the identification of environmental trends, but the forecasting of both the magnitude and direction of these trends. However, forecasting the future, especially with regard to complex and often inter-related trends in the environment, is complicated and may require specialist techniques and personnel.

We have examined some of these specialist techniques of technological forecasting in Chapter 11, and the strategic market planner needs to make estimates of likely sources of future opportunities and threats.

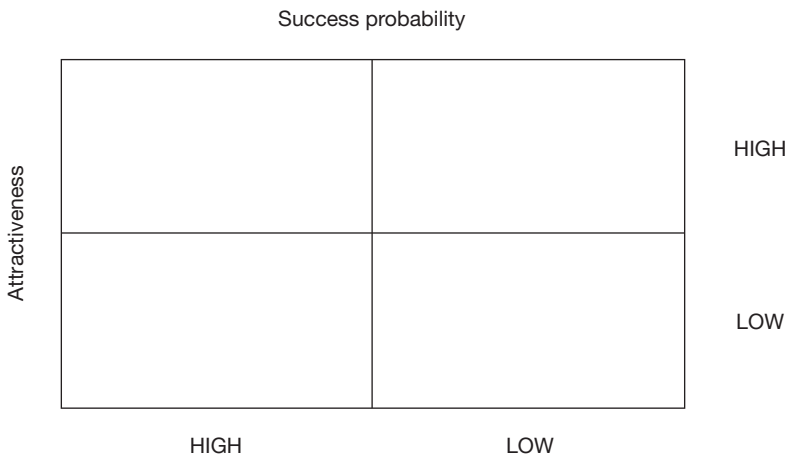
## ASSESSING THE IMPACT OF ENVIRONMENTAL TRENDS

In addition to this, the strategic market planner must assess their likely impact on the organization for after all, there is no other reason for appraising the environment. Kotler and Keller<sup>7</sup> suggests that the planner can begin to make this assessment using opportunity and threat matrices, as illustrated in Figures 13.3 and 13.4.

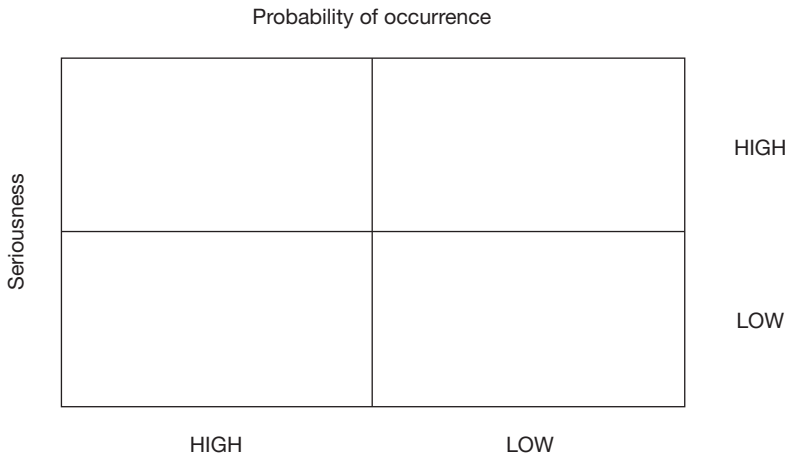
The opportunity matrix is based on the planner assessing the relative attractiveness of an environmental opportunity and the probability of success should the company decide to act upon it. In turn, this assessment requires an assessment of the strengths and weaknesses of the company, which we look at later in this chapter. In the same way, the planner should assess the likely impact of any possible threats to which trends in the environment give rise. Here we need to assess both the probability of the threat occurring and its seriousness for the activities of the organization.

Clearly, these matrices are an oversimplification of the analysis required to assess the impact of environmental changes on an organization. Not uncommonly, two or more trends, each of which on its own would not represent significant opportunities or threats, can, in combination, be highly significant. This means that several trends may need to be evaluated together to assess their cross-impact.

Despite the problems of determining the impact of trends it is essential that this is done. One of the benefits is the fact that even if the precise effects are difficult to predict, the very process of assessment and the necessary cross-functional discussion to which this gives rise can help the company to become prepared for the future.



**FIGURE 13.3** Opportunity matrix



**FIGURE 13.4** Threat matrix

## TRADITIONAL VIEW OF COMPETITIVE INDUSTRY STRUCTURES

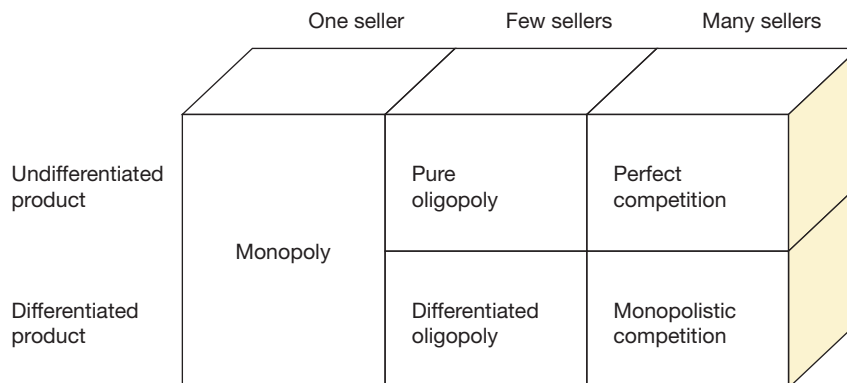
Figure 13.5 shows the traditional view of competitive industry structures preferred by economists. Different types of industry structure are based on the two key dimensions of ‘number of sellers’ (competitors) and the degree of product differentiation in the market. This results in five distinct types of competitive industry structure, ranging from ‘monopoly’, which is characterized by there being only one supplier and hence no competition, to ‘perfect competition’, this market structure being characterized by many sellers (competitors) and undifferentiated products.

Both the number of competitors and degree of product differentiation are important facts of competitive industry structure. Useful though this framework is it is generally recognized that it yields only a partial view of competitive forces at work in an industry so planners need to look to some of the more comprehensive frameworks of industry analysis.

### The Porter framework of competitive industry structure

One of the most useful frameworks for analysing competitive structure is that developed by Michael E. Porter<sup>8</sup> who suggests that competition in an industry is rooted in its underlying economic structure and goes beyond the behaviour of current competitors. The state of competition depends on five basic competitive forces, shown in Figure 13.6. Together, these factors determine the ultimate profit potential in an industry where profit potential is measured in terms of long-run return on invested capital. Not all industries have the same potential. Forces range from intense, e.g. tyres, paper, steel with no spectacular returns available; to mild, e.g. cosmetics, toiletries, soft drinks with high returns being common.

The goal of competitive strategy is to find a position in the industry where the company can best defend itself against these forces, or can influence them in its favour. Knowledge of these underlying



**FIGURE 13.5** Traditional view of competitive industry structure

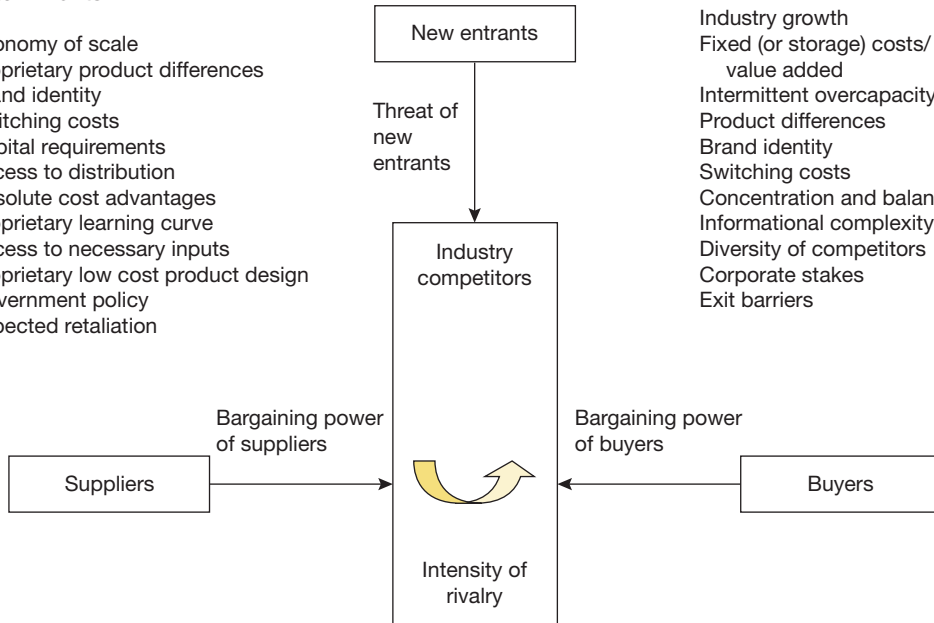
pressures highlights critical strengths and weaknesses of the company, shows the position in the industry, clarifies areas where strategy changes yield the greatest pay-off and highlights areas where industry trends hold greatest significance as opportunities or threats. Structure analysis is fundamental for formulating competitive strategy.

**Entry barriers determinants**

- Economy of scale
- Proprietary product differences
- Brand identity
- Switching costs
- Capital requirements
- Access to distribution
- Absolute cost advantages
- Proprietary learning curve
- Access to necessary inputs
- Proprietary low cost product design
- Government policy
- Expected retaliation

**Rivalry**

- Industry growth
- Fixed (or storage) costs/ value added
- Intermittent overcapacity
- Product differences
- Brand identity
- Switching costs
- Concentration and balance
- Informational complexity
- Diversity of competitors
- Corporate stakes
- Exit barriers



**Determinants of supplier power**

- Differentiation of inputs
- Switching costs of suppliers and firms in the industry
- Presence of substitute inputs
- Supplier concentration
- Importance of volume to supplier
- Cost relative to total purchases in the industry
- Impact of inputs on cost or differentiation
- Threat of forward integration relative to threat of backward integration by firms in the industry

**Determinants of buyer power**

- |  |   |
|--|---|
| <p><b>Bargaining leverage</b></p> <ul style="list-style-type: none"> <li>Buyer concentration versus firm concentration</li> <li>Buyer volume</li> <li>Buyer switching costs relative to firm switching costs</li> <li>Buyer information</li> <li>Ability to backward integrate</li> <li>Substitute products</li> <li>Pull-through</li> </ul> | <p><b>Price sensitivity</b></p> <ul style="list-style-type: none"> <li>Price/total purchases</li> <li>Product differences</li> <li>Brand identity</li> <li>Impact on quality/performance</li> <li>Buyer profits</li> <li>Decision maker's incentives</li> </ul> |
|--|---|

**Determinants of substitution threat**

- Relative price performance of substitutes
- Switching costs
- Buyer propensity

**FIGURE 13.6** The Porter model of competitive industry structure

## The five competitive forces in Porter's model

As suggested earlier, the five competitive forces suggested by Porter jointly determine the intensity of industry competition and hence profitability. As Figure 13.6 shows, each of the five major forces in turn comprises a number of elements which together combine to determine the strength of each factor and hence its effect on competitiveness. Some of these are outlined here.

1 *New entrants* can potentially serve to increase the degree of competition in an industry. In turn, threat of new entrants is largely a function of the extent to which barriers to entry exist in the market. Some of the key factors affecting these entry barriers include:

- economies of scale;
- product differentiation and brand identity;
- capital requirements;
- switching costs;
- government policy;
- access to distribution.

Because high barriers to entry can make even a potentially lucrative market unattractive (or even impossible) to enter for new competitors, the marketing planner should not take a passive approach but should actively pursue ways of raising barriers to new competitors.

2 *Suppliers* Bargaining power of suppliers is greater when, for example:

- supply is dominated by a few companies and they are more concentrated than the industry they sell to;
- their products are unique or differentiated, or if they have built up switching costs;
- they are not obliged to contend with other products for sale to the industry;
- they pose a credible threat of integrating forward into the industry's business;
- the industry is not an important customer to the supplier group.

3 *Buyers* Bargaining power of buyers is greater when, for example:

- they are concentrated or purchase in large volumes;
- the products they purchase are standard or undifferentiated;
- the products they purchase from the industry form a component of the product and represent a significant fraction of the cost;
- they earn low profits which create a great incentive to lower purchasing cost;
- the industry's product is unimportant to the quality of the buyer's products;
- the industry's product does not save the buyer money;
- the buyers pose a credible threat of integrating backwards to manufacture the industry's product.

A company can improve its strategic posture by finding suppliers or buyers who possess the least power to influence it adversely.

4 *Substitute products* can limit the potential of an industry by placing a ceiling on prices it can charge. If the industry is successful and earning high profits then it is more likely that competitors



will enter the market via substitute products in order to obtain a share of the potential profits available.

- 5 *Industry competitors* Intensity of rivalry between industry competitors depends upon:
- the concentration of the industry (numerous competitors of equal size will lead to more intense rivalry);
  - rate of industry growth (slow growth will tend towards greater rivalry);
  - value of fixed costs (high fixed costs might be a temptation to cut prices);
  - whether the product is a commodity dependent upon price and service;
  - the similarity of competitor strategies (if they have different ideas of how to compete they will run into each other continuously);
  - whether the firm has high stakes in achieving success;
  - whether the industry exhibits high exit barriers (if yes, firms will tend to remain in the industry even if they are making low or negative returns).

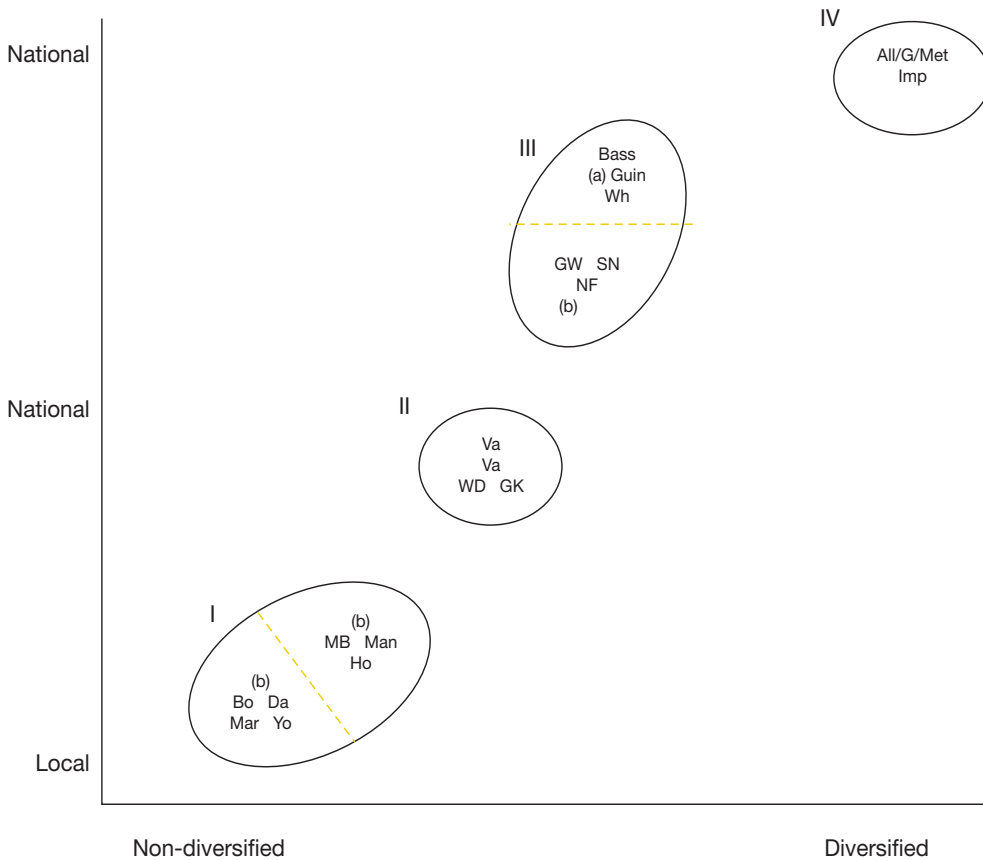
The Porter framework has added considerably to our knowledge of how to appraise the elements of competitive industry structure. Another approach is the concept of **strategic group analysis**.

## STRATEGIC GROUP ANALYSIS

This idea is based on the notion that groups of companies with similar strategic characteristics within an industry are in more direct competition with one another than other groups of companies in the same industry with dissimilar strategic characteristics. The strategic characteristics appropriate to form strategic groupings differ from industry to industry, but Johnson *et al.*<sup>9</sup> include the following:

- extent of geographic coverage;
- distribution channels used;
- size of organization;
- number of market segments served;
- pricing policy;
- marketing mix;
- cost position;
- utilization of capacity.

An example of strategic groupings for the UK brewing industry produced by Johnson and Thomas<sup>10</sup> is shown in Figure 13.7 to illustrate how this concept works. The figure shows that there were four distinct strategic groupings in the UK brewing industry when this analysis was conducted. In this example, the strategic groupings (which show companies with similar strategic characteristics and/or following similar strategies and/or competing on a similar basis) have been arrived at on the basis of the extent to which the companies are national or local, and the extent to which they have diversified into non-brewing activities. Unsurprisingly, these two characteristics also appear to be linked to the size of the organization, with smaller companies being less diversified and more local.



Key:	All:	Allied Lyons	GW:	Greenwall Whitely	SN:	Scottish & Newcastle
	Bass:	Bass	Ho:	Home	Va:	Vaux
	Bo:	Boddingtons	Imp:	Imperial Foods	WD:	Wolvs. & Dudley
	Da:	Davenports	Man:	Mansfield	Wh:	Whitbread
	GK:	Greet King	Mar:	Marstons	Yo:	Youngs
	G.Met:	Grand Metropolitan	MB:	Matthew Brown	NF:	Northern Foods
	Guin:	Guinness				

Group 1: Local brewers concentrating on single business brewing. However (b) are rather more diversified, particularly in terms of soft drinks production and distribution

Group 2: More geographically extended regional brewers

Group 3: (a) National or (b) semi-national brewers who have grown and diversified from a brewing base

Group 4: Diversified conglomerates with interest in brewing

**FIGURE 13.7** Strategic groups in the UK brewing industry

Source: Johnson, G. and Thomas, H. (1988), 'Research in the brewing industry', in Johnson, G. and Scholes, K. (eds), *Exploring Corporate Strategy*, 2nd edn, Upper Saddle River, NJ: Prentice-Hall, p. 74.

## Competitors' objectives and strategies

As the strategic group analysis approach to analysing competitive industry structure indicates, in addition to structural characteristics of an industry, it is also important to assess how a company's competitors compete (their strategies) and to what purpose (their objectives).

If a company was contemplating entering a new market in which there were existing competitors, it would be important to analyse how these competitors compete. For example, competition might be based primarily on price; it might alternatively be on delivery and quality. Whatever the basis, it is important to assess the extent to which the company can compete successfully on the same basis, or whether competing on a different basis might be more appropriate.

In markets where competitors compete on a similar basis i.e. where their competitive strategies are similar, competition tends to be fiercer. Markets where there are a variety of strategies for competing tend to offer more scope for establishing a competitive advantage for a company and are usually more attractive.

Competitor objectives should also be considered in this part of the appraisal. In many organizations the overall objective may be to maximize profits, but objectives are rarely as simple as this. In any event, many companies that operate in the non-profit-making business arena still have fierce competition.

As an example of the importance of establishing competitor objectives, consider the case where a company establishes that its major competitor has objective of increasing market share with a long-term view to securing market leadership. Knowing this would not only indicate what the major thrusts of this competitor are likely to be, but in addition, the company would also begin to delineate what its defensive reaction should be. Similarly, if competitors are part of larger companies it is useful to know how they feature in the overall operation and plans of these parent companies.

## Competitors' strengths and weaknesses

Having identified competitors, assessed the competitive structure of the industry and assessed competitors' present and future objectives and strategies, the next stage is to assess their relative strengths and weaknesses.

It is not too difficult to appreciate the importance of this part of competitive analysis. A soccer team manager assesses the relative strengths and weaknesses of opponents before deciding how to take them on. If major competitors are aggressive, cash rich and have lower operating costs than we have, it would not make sense to attack them on price. Similarly, if competitors are much larger than ourselves (and consequently more powerful) it would make more sense to avoid head-on confrontation and instead pursue flanking or niche strategies in the market. We examine the range of competitive strategies in subsequent chapters, but at this stage we need to consider the sort of factors that should be included in an analysis of their strengths and weaknesses.

### *Financial*

- liquidity ratio;
- profits;
- turnover;
- breakeven points;
- return on investment.

*Human resources*

- labour supply;
- qualifications;
- experience;
- aggressiveness;
- style.

*Production*

- capacity;
- size of plant;
- productivity;
- plant location;
- quality control.

*Market*

- market share;
- customer service;
- price competitiveness;
- distribution channels.

Clearly, there are many factors against which we might assess the relative strengths and weaknesses of identified competitors. In addition, some of them would not be easy to assess. In order to help in this process of assessment it helps to proceed in a systematic and objective way using rating scales. One possible approach is as follows:

1 *Identify **key factors for success (KFS)** in the industry*

For example, if product quality, price and delivery are essential to competitive success in the industry, it makes sense to appraise your own company and competitors against these factors.

2 *Rank both your own company and competitors against these factors using an appropriate rating scale*

For example, you might assign a score to your own company and competitors against each criterion on the following basis:

Score	Evaluation
0	Very poor/dismal
1	Poor
2	Below average
3	Average
4	Above average
5	Good
6	Excellent

Better still, where appropriate get your customers to make the evaluation; after all it is their perceptions which count.

### 3 *Assess implications for future competitive strategies*

Having completed the evaluation, a company is then in a position to assess what its future competitive strategies need to be so that account can be taken of the relative strengths and weaknesses identified.

You will note that we have included in this assessment the assessing of the company itself; this is important as we are assessing *relative* strengths and weaknesses. The fact that competition is strong, but you are stronger, would result in a very different competitive strategy from one where the assessment shows that you are strong, but your competitors are stronger. Similarly, an assessment which showed your competitors to be weak, but your company weaker would result in different strategies from one where the assessment showed your company to be weak but your competitors weaker. This sort of analysis can be useful in determining which competitors to attack (if any) and which to avoid.

It is impossible to be definitive about the criteria for assessment. After all, the key factors for success will vary from industry to industry and even from one customer group to another. Certainly, financial and market strengths and weaknesses are likely to figure in most assessments, but it is for the marketing planner to determine the assessment criteria most appropriate to the circumstances.

Owing to the importance of assessing 'relative' strengths and weaknesses we return to this important aspect later in the chapter when we look at the assessment of internal strengths and weaknesses.

## Assessing and anticipating competitors' reactions

A crucial stage in competitor analysis is to try to gauge how competitors will react in the marketplace, and in particular to assess how they might respond to your own competitive moves. In a sense this is similar to an army general trying to assess how his counterpart might respond in battle.

Studying competitors can tell us a lot about their likely moves and reactions to such things as promotional campaigns, price cuts or new product launches. However, different competitors will react in different ways to different forms of competition. Kotler<sup>11</sup> outlined four common 'reaction profiles' among competitors in 1997:

- the *laid-back competitor*: little or no response to competitive moves;
- the *selective competitor*: sensitive to some strategies (e.g. price cutting) but not to others;
- the *tiger competitor*: responds quickly and aggressively to any competitor move;
- the *stochastic competitor*: responds in an unpredictable manner.

Likely competitor actions are perhaps the most difficult aspect of behaviour to assess. Even the most predictable of competitors can sometimes act or react unpredictably.

## Competitor intelligence: collecting information on competitors

Competitor analysis requires an efficient and effective competitor intelligence system. One of the problems here is that competitors are not knowingly willing to volunteer information required for the analysis we have just covered. Indeed this information can be amongst the most difficult and

sensitive of market information to obtain. Some sort of competitor intelligence-gathering goes on in most organizations. A competitor intelligence system should address the following:

- 1 nature and type of information required;
- 2 frequency of information gathering and reporting;
- 3 responsibility for information gathering
- 4 methods of data collection and sources;
- 5 information analysis and dissemination procedures.

There is a fine dividing line between what could properly be termed 'legitimate' intelligence-gathering activities on competitors and what might be termed 'snooping'. At the extreme, of course, some intelligence-gathering activities fall into the category of industrial espionage, which may bring with it legal ramifications. Having said this, competitor intelligence-gathering is becoming more and more intense. The lengths to which some companies will now go in order to collect this information is evidenced by Flax<sup>12</sup> who lists at least 20 techniques for 'snooping' on competitors.

In addition to the more conventional sources, such as competitors' publications, balance sheets and past employees, Flax also includes more radical approaches such as 'collecting competitors' garbage' and aerial photography.

## Data for analysing the environment

The scope and complexity of environmental analysis means that the marketer can be involved in extensive data collection. As we have seen, not all this data is readily available. Moreover, the amount of data that can be required for environmental analysis means the marketer must be careful to avoid the problem of information overload. The marketer must discriminate between essential and non-essential data for the analysis. Data can come from a variety of sources: internal data, for example, can come from sales, accounts, customer service and research and development, whereas external data can come from secondary sources such as government publications and industry statistics, and from primary sources such as customer questionnaires and focus groups.

Much information for environmental analysis is collected online and analysed via computer-based information systems. We have seen the growth of databases which allow constant and instant access to up-to-date information on a company's environment. These and other aspects of information provision for marketing analysis and decision making have already been considered in the previous chapter.

## Problems and issues in assessing strengths and weaknesses

The assessment of strengths and weaknesses is central to the development of strategic marketing plans. In many case-based marketing courses and texts, this analysis is often suggested as being the starting point for students. Resource analysis, and interpreting what this implies in terms of strengths and weaknesses, is often misunderstood and performed poorly by academic analysts and marketing practitioners. Underpinning this misunderstanding are two basic factors.

First, assessment of strengths and weaknesses is complex and multifaceted and there is a need to exercise creativity, judgement and managerial expertise in the assessment process. Appraisal of strengths and weaknesses involves more than a 'mechanical' listing of organizational resources, although such a 'listing' commonly occurs in practice.

Second, development of conceptual frameworks and methods to help marketing planners assess strengths and weaknesses have been poor. There is a need to recognize and deal with the practical problems and issues which confront the strategic marketing planner in this area. Specifically, it is essential to address the following questions:

- What attributes and activities should be included in a strengths and weaknesses appraisal?
- How can we evaluate what are 'strengths' and what are 'weaknesses'?
- How should we organize and conduct the appraisal procedure?
- How can we interpret and use the output of a strengths and weaknesses appraisal?

We now turn our attention to each of these questions.

## What attributes and activities should be included in the appraisal?

The first step in conducting an appraisal of strengths and weaknesses is to determine the attributes to assess, i.e. what activities and resources should form the basis of the analysis? According to what we assess in our strengths and weaknesses analysis, we will arrive at different conclusions and thus very different strategy formulations. Determination of the 'right' attributes to measure is not easy and requires considerable analysis and creativity.

The most common approach to analysing strengths and weaknesses is to use a checklist for the delineation of resources and/or activities to be assessed. For example, it is suggested that one should start by listing all the functional areas in the organization and then proceed to produce a list of all the attributes in each functional area which might conceivably be assessed for strengths and weaknesses. An example of this type of approach is:

### *Marketing*

- brand names;
- corporate image;
- distribution;
- product range;
- prices;
- sales force;
- marketing systems.

### *Financial*

- cost of capital;
- liquidity;
- profitability;

- asset structure;
- price/earnings ratio.

### *Manufacturing*

- capacity usage;
- age profile of plant;
- manufacturing systems;
- quality control;
- flexibility;
- economies of scale.

### *Human resource*

- skill levels;
- adaptability;
- manpower planning;
- industrial relations;
- working conditions.

Checklists are helpful in enabling the market planner to think more broadly about the range of factors which might usefully be assessed. However, there are three problems with the use of checklists:

#### 1 *Number of attributes*

There are many possible attributes which could conceivably be appraised. Analysis of all of them is extremely time consuming and costly. More importantly not all company resources and activities are strategically significant. This brings us to the second problem associated with using 'standardized' checklists.

#### 2 *Which attributes?*

A particular company's resources and activities are strategically important. Which ones are vital to assess from a 'strengths' and 'weaknesses' perspective, are specific to that company and the product/market combinations in which it operates. It is crucial to assess the resources and activities which are what Ohmae<sup>13</sup> first referred to as key factors for success (KFS) in the markets in which the company competes. KFSs are resources and activities that underpin the key factors that should be assessed. This point is strongly emphasized. This, in turn, means that each company must establish its own list of attributes for assessment according to its existing or proposed market strategy.

If a company does not know what these critical success factors are, it must establish them. It is important that the process of establishing these key attributes be carried out as systematically and objectively as possible and not based on guesswork of what management 'feels' the key attributes should be.

In most industries and companies the critical attributes against which to assess strengths and weaknesses will be 'known' to experienced marketing managers. For example, in the confectionery industry, both brand reputation and strong distribution are critical factors to competitive success and these will need to be appraised in any analysis of strengths and



weaknesses. Similarly, for most companies, assessment of, say, financial strengths and weaknesses will be critical in delineating and selecting between alternative marketing strategies. It is often the case that relatively few factors will be critical to success or failure in a market.

The key factors for success in the UK fashion jeans market are:

- strong and effective branding;
- distribution effectiveness;
- quality;
- innovation and new product development.

A company that has all of these attributes and remains a leader in this market, despite extensive competition, is the Levi Strauss Company. Building on its strong brand presence in this market, combined with a reputation for quality, Levi Strauss continues to innovate. The 'Engineered' range proved to be very popular. Levis focused on the quality end of the market with this product and its strong distribution channels gave it a competitive edge in the market.

A key attribute for strengths and weaknesses assessment is how and why customers choose, and in particular what they consider to be of value. Customer needs assessment is crucial in answering the question, namely: 'How can we evaluate what are strengths and what are weaknesses?' A customer-oriented focus is vital. Before we consider this question we must consider the third problem in the checklist approach to assessing strengths and weaknesses.

### 3 *Interrelationships between attributes, synergy and balance*

Even after identifying key attributes for the strengths and weaknesses assessment, it is important to recognize that invariably individual attributes will be interlinked. A simple checklist approach, even if this is based on an objective, customer-based assessment of key attributes, fails to recognize this. For example, a company may be only moderately strong in, say, selling and sales management, branding and promotion, and product range when these are assessed independently. Looked at in combination, 'moderate strengths' may be such that it will render the company very competitive in the marketplace. This concept of the combined effect of parts being greater than the sum of their individual effects as the concept of synergy was first popularized in planning by Ansoff.<sup>14</sup> Synergy can be either positive or negative in its effect. The checklist approach tends to underestimate the importance of assessing the extent to which various activities and resources of an organization complement, or do not complement, each other. Very often it is the balance of organizational resources and activities which is crucial. Although this makes the assessment of strengths and weaknesses more problematical, it is a vital consideration. The question of 'balance' is increasingly being recognized as an important facet of a strengths and weaknesses appraisal and some of the more recent techniques and tasks of strategic appraisal such as portfolio analysis, which we shall consider in Chapter 14, are particularly useful in this respect.

## **How can we evaluate what are strengths and what are weaknesses?**

Our second practical problem for the strategic marketing planner relates to the seemingly straightforward issue of what constitutes a strength or a weakness, i.e. what is involved in their evaluation. This is not straightforward. To illustrate this issue we consider first the question of what

a strength is and the significance of **distinctive competencies**. Second, we look at customer needs and the notion of **value chains**. Third, we examine once more the importance of evaluating competition. Finally, we look at the use of profiles in assessing strengths and weaknesses.

To illustrate some of these key issues in evaluating organizational strengths, let us imagine a company has recently completed an analysis of its strengths and weaknesses and that this analysis suggests that the company has the following strengths:

- a reputation for high quality;
- good after-sales service;
- distinctive brands and packaging;
- efficient production;
- spare capacity;
- a well trained and effective sales force.

Certainly, any company which possessed these attributes would seem to have a number of significant strengths. The key question for this hypothetical company is the extent to which these are truly strengths, and how the company arrived at this conclusion. Here are some of the important considerations in answering these questions.

First, how strong is 'strong'? One of the considerations for the company is to assess precisely how strong the company is in each of the areas listed above. For example, the company feels it has a strength in the areas of after-sales service, but does this mean it is 'very strong' in this area, or is it only 'moderately strong', or is it simply 'not weak'? At first glance, these distinctions may appear to be pedantic. Nevertheless, in strategic terms the degree of strength is crucial. Being 'satisfactory' or even 'moderately strong' along some dimension is very different from having a major strength. Where a company has a major strength with respect to some factor, we refer to it as having a distinctive competence.

Hamel and Prahalad<sup>15</sup> clarify the importance of being distinctively competent as opposed to merely competent: 'Differentiation must be unique. If every company in the industry has the skill, then it is not a basis for differentiation unless the organization's skills in the area are really special.' There are plenty of examples of companies going out of business because they have failed to identify real strengths, i.e. their distinctive competence as opposed to what they merely 'can do'. Similarly, many companies fail to capitalize on marketing opportunities to which an identification of their true strengths might give rise.

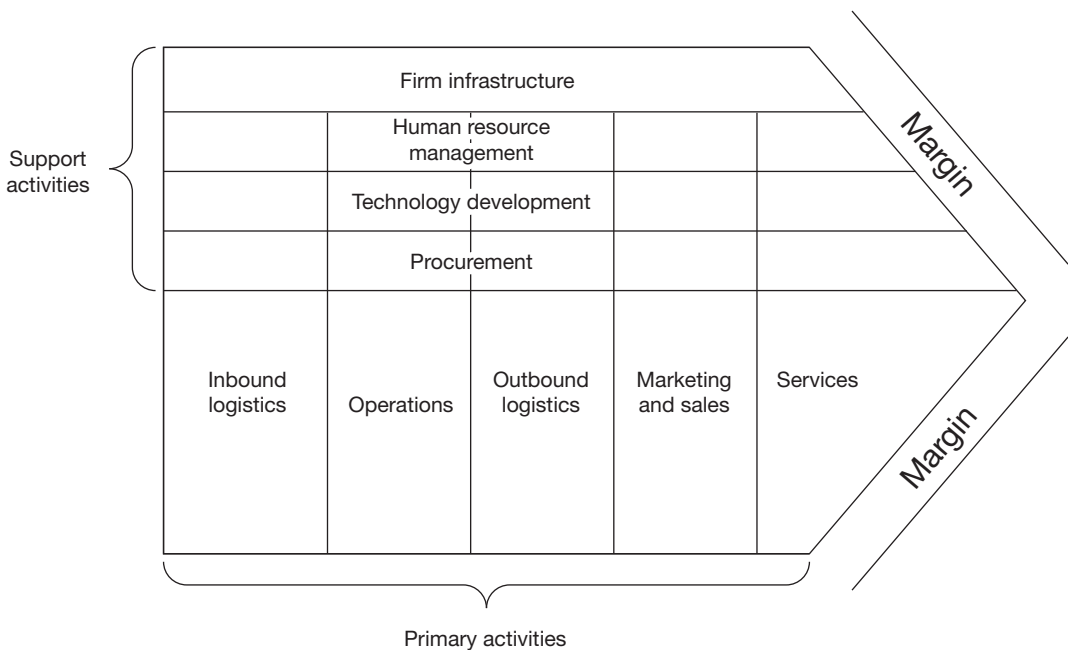
Next, are these the factors which are relevant to competitive success? A second consideration in assessing a company's strengths is to relate distinctive competence to customer needs. Let us assume that after-sales service in the company is a distinctive competence. We must then ask whether or not after-sales service is an important factor to its customers. Put another way, the company has to determine the extent to which after-sales service is important in business success. The point here is that a company can be extremely strong in areas which are unrelated to business success, either in existing, or future/envisaged business areas. Such 'strengths' are not strengths at all and they can in fact constitute a major source of weakness if a company attempts to use these to compete strategically.

You will recognize that this consideration is related to the first problem of which attributes to include in the assessment of strengths and weaknesses. You will recall that it was suggested that the

key attributes for a strengths and weaknesses assessment are those which underpin customer choice and in particular what they consider to be of value. It was also suggested that most experienced marketing managers in an industry will have a good 'feel' for what these key success factors are for their own product/market combinations and that often there are relatively few key factors. Nevertheless, both in the selection of attributes for assessment and in the assessment process itself it is vital to ensure that we understand what the customer considers value to be and the activities of the company which either add to or detract from this value. A useful concept in this respect is the concept of 'value chains'.

## THE CONCEPT OF VALUE CHAINS

Developed by Porter,<sup>16</sup> **value chain analysis** is aimed at identifying potential competitive advantages. Porter suggested that the activities of a company can be broken down into nine 'value activities', five being primary and four secondary. These value activities collectively comprise those activities involved in designing, manufacturing, marketing and delivering the organization's products and services. Figure 13.8 illustrates the nine major groupings of activities in the value chain.



**FIGURE 13.8** The value chain

Source: Porter, M.E. (1985), *Competitive Advantage: Creating and Sustaining Superior Performance*, New York: Free Press, p. 37.

**Primary activities** comprise activities associated with the input, throughput and output of goods and services in the organization, and include the following:

- 1 inbound logistics: e.g. materials handling, stock control and delivery inwards;
- 2 operations: e.g. packaging, assembly, equipment maintenance and testing;
- 3 outbound logistics: e.g. finished goods warehousing, materials handling, order processing and delivery outwards;
- 4 marketing and sales: e.g. advertising, promotion, sales force, pricing and channels;
- 5 service: e.g. installations, repairs and parts supply.

**Support activities** comprise those activities which facilitate primary activities in the physical creation of the product and its sales and transfer to buyer and including:

- 6 procurement: refers to the function of purchasing inputs used in the organization's value chain, and not to the purchased inputs themselves. Examples include purchasing procedures, techniques of vendor analysis and information systems. In addition, procurement activities may also include the procurement of more than simply raw materials and components. An organization also 'procures' market research or accountancy expertise; hence activities concerned with procuring these services would also be included.
- 7 technology development: support activities that improve the product and the process. The areas of support activities here are those which are carried out in the research and development function, but they also include technology support activities, office automation, communicating with customers, measuring quality, etc.
- 8 human resource management: includes recruitment, selection, training and development.
- 9 firm infrastructure: support activities here include systems of quality control, financial systems and marketing planning.

Although the broad categories of value activities, both primary and secondary, are common to most organizations, individual components of value activities will tend to be company specific. The basic idea of the value chain concept is that each activity can be categorized and analysed with a view to securing competitive advantage. Specifically, a company should analyse all its activities with a view to determining how these contribute to the value the customer receives. They should also be analysed with respect to cost and competitor margins. Figure 13.8 shows the difference between total value and the cost of performing all the value activities. In simple terms by looking at both value activities and the cost of performing them compared to the competition, it is suggested that an organization can seek competitive advantage either by cutting the cost of performing the value activities while simultaneously maintaining the value, or by increasing the value of the activities to the customer. Two further points about value chain analysis are worthy of note.

- 1 First, value chains extend outside the organization itself to include suppliers and distributors. For example, a supplier may, through its own quality control activities, enhance inbound logistics and operations activities of its customers, thereby adding value to its customers' customers. Similarly, distributors can influence value. For example, a distributor may undertake to offer

after-sales service for the manufacturers' brands it supplies, thereby potentially adding value to these brands for the customer. Porter refers to these as 'vertical linkages'.

- 2 Second, it is important to recognize that the value chain is not a set of independent activities. Each of the primary and secondary activities is interdependent. These are what Porter calls 'horizontal linkages' and it is often these linkages which form the basis of competitive advantage. For example, improved quality management (a 'firm infrastructure' activity) can enhance both manufacturing (an 'operations' activity) and marketing and service activities. In other words, all the value activity areas must be looked at together to achieve optimization and co-ordination.

This is a brief introduction to the concept of value chains. In fact, the uses of value chain analyses are complex and multifaceted. Porter has developed the concept and techniques of value chain analysis to enable the company to look for ways of securing competitive advantage. In the context of assessing strengths and weaknesses, value chain analysis has four distinct benefits:

- 1 It provides a framework for addressing an earlier problem of which attributes (or activities) to assess in strengths and weaknesses analyses.
- 2 By using the concept of 'value' it forces the analysis of strengths and weaknesses to relate better both to how the customer views them and to competition. Johnson *et al.*<sup>17</sup> have captured this use of the value chain:

Value chain analysis describes the activities within and around an organization and relates them to an analysis of the competitive strengths of the organization or its ability to provide 'value for money' products or services.

Analysis of value chain activities enables us to assess what are truly 'strengths' and what are truly 'weaknesses'.

- 3 The concept of horizontal linkages in value chain analysis reinforces the earlier point about the importance of looking at interrelationships between resources and the related concept of synergy and balance.
- 4 Finally, the concept of vertical linkages in value chain analysis forces us to think more broadly of possible strengths and weaknesses that derive from linkages with suppliers and distributors and which, in turn, stem from their strengths and weaknesses in relation to ours.

From its highly successful American base, the US retailer Walmart then expanded into Europe. The company acquired the ASDA group of supermarkets in the UK and has overtaken Sainsbury's to become the second most powerful retailer in the UK after Tesco. Walmart built its strategy for success around offering good value products with low prices, while maintaining good quality. This strategy is built upon effective value chain management and in particular the efficient use of vertical links with suppliers. Walmart has been able to reduce its costs throughout the supply chain, thereby being able to pass these cost savings onto its customers. To compete successfully against this, Walmart's competitors have had to better secure and manage their own vertical links in the value chain as effectively and efficiently as Walmart have done.

Next, are our competitors stronger or weaker than ourselves? This consideration in evaluating strengths and weaknesses takes us back to the importance of competitor analysis. Once we have identified what are key strengths and weaknesses, and where our distinctive competences lie, we need also to assess the extent to which we have a competitive advantage with respect to these competences.

In the same way that we cannot evaluate what constitutes a 'strength' or a 'weakness' without assessing the extent to which customers value these competences, so too we should not proceed to develop marketing strategies and plans based on these without also assessing how strong or weak our competitors are in these areas. The perspective that needs to be taken is from the market to the company, and not from the company to the market, which is, after all, the essence of marketing orientation.

The importance of assessing strengths and weaknesses in relation to competition, as well as to needs of customers, stems from the fact that a key reason for assessment of strengths and weaknesses is, as we have seen, to help in the delineation and selection of competitive marketing strategies. For example, the company might have distinctive strengths in the areas of quality and after-sales service, and these might be strengths which the customer values, and hence are key factors for success in these areas. Stronger, weaker or equal; it simply does not make sense to evaluate our strengths and weaknesses without comparing ourselves to the competition.

We can see from our discussion that the issues which arise in the process of evaluating strengths and weaknesses are complex. It might be said that weaknesses are easier to understand than strengths. Essentially weaknesses are constraints, but as with strengths we need to assess them in the context of customer and market needs and of the competition. A weakness in terms of after-sales service would matter less if this factor were unimportant to business success and if our competitors were even weaker. Again, as with strengths, we also need to assess if our weaknesses are major or minor.

A useful approach to the evaluation of both strengths and weaknesses relative to the competition is the use of a strengths and weaknesses profile.

## **PROFILING SYSTEMS IN EVALUATING STRENGTHS AND WEAKNESSES**

The first two issues in appraising resources for strategic marketing planning relate to the important areas of attribute selection and the evaluation of those attributes as true strengths or weaknesses. The second of these, i.e. the evaluation of strengths and weaknesses, involves both the identification of distinctive competences and assessment of competitor strengths and weaknesses in the same areas. Simple profiling systems may be used to address both these issues and are now described.

Having identified key resources or attributes for our strengths and weaknesses evaluation, we can then score our company with respect to these key attributes or resources using a simple numerical scale, as shown in Figure 13.9. Once this is completed for each attribute we can then repeat the process for each of our key competitors. Admittedly, this second part of the process is not easy, but it is extremely useful. In this way we can build up a series of 'profiles' of our own and competitor

strengths and weaknesses, as shown in Table 13.1, which in turn can be used to delineate and select future strategies. Although such profiling enables a systematic approach to be made when evaluating strengths and weaknesses, inevitably the resultant profiles will depend on who is carrying out the evaluation. For example, the marketing manager may have a very different view of, say, product quality from that of the production manager. This brings us to the question of how we might organize and conduct the appraisal procedure.

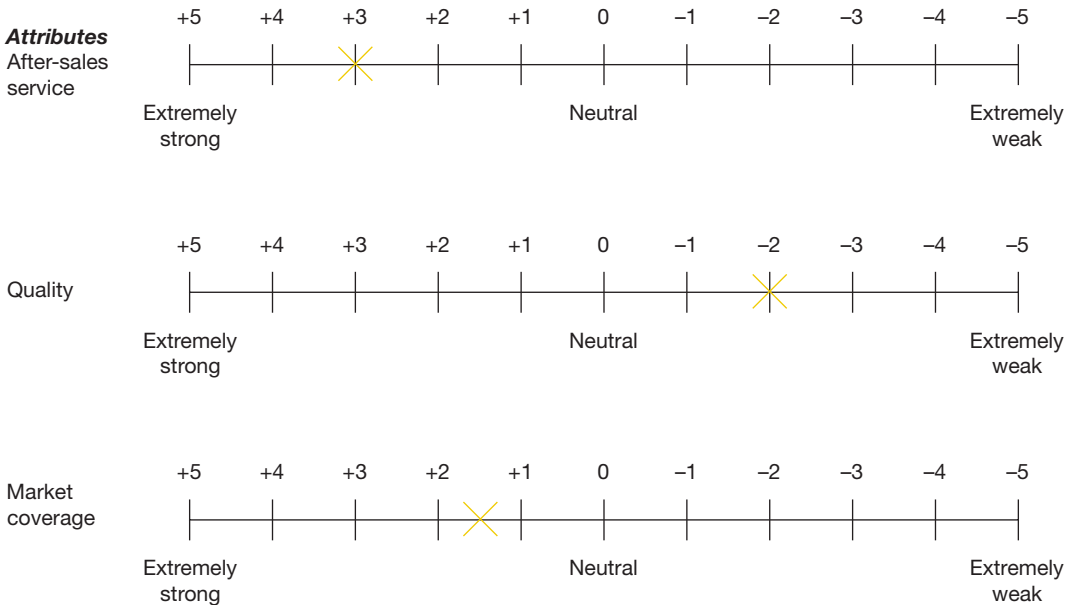


FIGURE 13.9 Key attributes scale

TABLE 13.1 Strengths and weaknesses: company and competitor profiles

Attributes	Assessment of relative strengths			
	Own company	Competitor A	Competitor B	Competitor C
Range of products	+5	-1	+5	+2
Terms of trade	+3	+2	+4	-1
Low cost production	-2	+2	+3	-1
After-sales service	+4	+2	-1	-3
Quality of products	+5	-3	+4	+1
Market coverage	+3	+5	+5	+1

## How should we organize and conduct the appraisal?

Even though a company's approach to evaluating strengths and weaknesses may be systematic, it may not always be objective. Perhaps inevitably the evaluation is likely to be subjective, especially when it is carried out by managers of that company. After all, most people find it difficult to be objectively self-critical. For this reason it is preferable to use an inter-functional team approach to internally based assessment systems. Where a company can call in external consultants to make the assessment, this is better. Not only are customers likely to be more objective and thorough, but it is customers' perceptions of our strengths and weaknesses which are critical. The customer will not necessarily be in a position to make a full assessment (e.g. on finance and production), but is capable of appraising perceived marketing strengths and weaknesses.

A related problem with company staff being involved in strengths and weaknesses assessment is that the process is often seen as being threatening; a fact that can severely detract from the objectivity of the exercise. Properly administered, the effective use of a SWOT analysis delivers key benefits over and above its obvious input to the marketing plan. In particular, SWOT analysis helps foster collaboration and information exchange between different functional areas of the business. In turn, this can help create an environment of creativity and innovation. In order to achieve this benefit, the SWOT analysis process should be approached positively. In particular, it must not be used to criticize functions or individuals in the organization whenever weaknesses are identified.

## How can we interpret and use the outcome of strengths and weaknesses assessment?

The assessment of a company's strengths and weaknesses is not an end in itself. This assessment should feed into, and affect, the process of strategic market planning. Some of the major uses of the outcome of a strengths and weaknesses assessment, together with major strategic planning concepts which accompany this use are now described.

### Matching strengths and weaknesses to opportunities and threats: the concept of 'strategic fit'

Environmental monitoring is important to assess opportunities and threats which might face an organization. Only when a company has assessed its own strengths and weaknesses, is it in an objective position to evaluate what constitutes a company marketing opportunity or threat. By carefully matching environmental trends and changes to its own particular blend of distinctive competences the strategic marketing planner is able to devise strategies which build on the company's strengths, while at the same time minimizing its weaknesses. By so doing, the planner aims to achieve a 'strategic fit'.

### Responding to environmental changes and trends: the concept of 'strategic windows'

A key feature of the environment is that it is constantly changing. Because of this, both the opportunities and threats assessment and the assessment of company strengths and weaknesses (SWOT analysis) should be carried out at regular intervals. If a company does not do this, then over



time it is likely to find that a previously good 'strategic fit' has changed. In a changing environment there are often only limited periods when the fit between the distinctive competences of a company and the opportunities presented by the environment are at optimum positions. Abell<sup>18</sup> has referred to such periods as 'strategic windows'; unless the organization acts quickly (which requires an effective system of SWOT analysis) then these windows will close. He suggests that the 'strategic window' concept can be used both by companies already in a market and by would-be entrants. For incumbents, the concept enables the assessment of future strategies to take account of changes in the environment, and in particular to assess the allocation of resources to existing activities. For the new entrant, the concept provides a framework for assessing possible diversification and new market entry opportunities based on matching these to organizational strengths.

The 1990s witnessed a large increase in the number of people living alone. This group comprises several segments including, for example, young people leaving home for the first time, newly divorced individuals and new widows and widowers. It is primarily the first two of these groups which account for the increase in the demand for small, one-person dwellings that are easily managed and affordable. The builder and developer, Barratt, were one of the first companies to spot this trend and develop homes and marketing programmes to fill this need. Barratt developed a competitive edge by being amongst the first to spot this strategic window of opportunity.

## RELATIONSHIP TO OTHER AREAS OF STRATEGIC MARKETING PLANNING

We have seen that the assessment of an organization's strengths and weaknesses, together with the analysis of environmental trends and changes, is a key input to the identification of strategic windows and the development of a strategic fit. It is important to recognize that in achieving this, appraisal of strengths and weaknesses is an essential input to the whole of the strategic marketing process, including for example:

- business definition and objective setting;
- the selection of appropriate target markets;
- the formulation and implementation of marketing mix strategies.

In particular, we must remember that a strengths and weaknesses assessment enables the planner to determine what might be wanted or needed to change the company's profile of strengths and weaknesses. In contrast to environmental opportunities and threats, over which the company may have little or no control, with strengths and weaknesses it can implement action programmes to alter its profile.

For example, if an assessment indicates areas of relative weakness that are important to competitive success in the markets in which a company operates, then steps can be taken to correct these weaknesses. Similarly, a company need not limit itself to future strategies and opportunities which make use only of its existing strengths. If the opportunity is potentially substantial then a company can seek to develop or acquire the strengths required to take advantage of the situation.

## Assessing core competencies

Closely related to the notion of distinctive competencies and key factors for success discussed earlier, Prahalad and Hamel<sup>19</sup> suggested that a sustainable competitive advantage for a company is often based on a set of central strengths which together form what they term a 'core competence'. This is what can be used to develop successful strategies against competitors, e.g. it is suggested that 3M's core competence is based on their knowledge and applications of sticky-tape technology. Canon, on the other hand, has core competencies in precision mechanics, optical technologies and micro-electronics. The Black and Decker Company's core competencies are in the design and manufacture of small motors. Central to the notion of core competencies is the fact that they underpin the company as a whole and can be used to support a number of different markets and businesses in the organization. For this reason core competencies are likened to the root system of a tree which supports the rest of the structure; core products of the company stem from the core competencies represented by the trunk of a tree and its major limbs, whereas the smaller branches are business units and the leaves and flowers are specific end products. A company must identify the core competencies around which its current and possibly future success will be built and seek to ensure that these are nurtured, protected and enhanced. As with all strengths, core competencies will only develop a sustainable competitive advantage where they can be used to generate customer value and where they are defensible and superior to competitors.

## The notion of marketing assets

First used by Davidson<sup>20-22</sup> in a series of three articles in *Marketing* magazine, the notion of **marketing assets** is a valuable contribution to our knowledge of how to utilize an internal appraisal of strengths and weaknesses in competitive marketing. Essentially, Davidson contends that marketing assets are strengths that can be used to advantage in the marketplace (which is after all the reason for assessing a company's strengths and weaknesses in the first place). He contrasts asset-based marketing with more traditional market-based marketing. Market-based marketing is the notion of identifying customer needs and seeking ways to satisfy these needs profitably. Asset-based marketing, somewhat controversially, starts with a company and its assets and asks how the company can use these assets more effectively in the marketplace. It involves considering, for example, how any identified skills and resources from an internal appraisal can be converted into better value for the customer. In practice there needs to be a combination of both market-based and asset-based marketing. This makes sense because strategic market plans essentially match company resources and strengths to the needs of the environment and the marketplace.

The starting point of developing an asset-based approach to marketing is essentially the same as in a conventional strengths and weaknesses assessment, inasmuch as it commences with the identification and appraisal of all the resources, skills and assets of a company. Davidson suggests a checklist to identify key areas of assets. This checklist encompasses the following examples of asset types: people; working capital; capital equipment; customer franchises e.g. brand names, unique products or processes, patents, superior service skills; access to third-party resources such as joint ventures or agreements; sales distribution and service networks and scale advantages due to market share and size.

Having established an inventory of assets, the marketing manager should then establish key exploitable assets for future strategy. This involves asking a number of key questions about identified assets such as: 'How can the brand name be exploited further, and how far can the brand be stretched without weakening the franchise?' Overall, we are seeking to establish how the assets of the company can be exploited more effectively in marketing terms. It is important to note that throughout the exercise, assets are examined from a marketer's point of view and not from an accountant's stance. An example of how this can lead to more effective marketing, which exemplifies this notion of asset-based marketing, is the strategy of brand extension. Davidson gives the example of Johnson & Johnson's baby shampoo which until the early 1970s was positioned exclusively for babies. Research showed that it was also being used by mothers and the company decided that by repositioning the brand to extend product usage, much more effective use could be made of the powerful asset of the brand name. A similar example is the move by many of the food companies to extend their brand franchises, e.g. when Mars extended the brand to include ice cream and food products.

Marketing assets has proved to be a useful perspective on the assessment and uses of an analysis of strengths and weaknesses. However, both market brand and asset-based marketing are necessary to achieve a balance between satisfying consumers and the effective utilization of a company's resources.

## SUMMARY

Environmental analysis is important in strategic market planning. This appraisal is crucial because it is from trends and changes in the environment that marketing opportunities and threats arise. This means it is important for the planner to appraise or 'scan' the environment. We have seen the development of formal systematic scanning systems, but this has not perhaps kept pace with the development of strategic approaches to planning. The 'environment' of the marketing planner and its organization includes all those factors outside the marketing management function of the firm; it encompasses the intra-firm environment, the micro-environment and the macro-environment.

Effective environmental appraisal requires the use of a systematic framework in an organization, although such frameworks are rare. Even using a systematic framework, environmental appraisal is made more difficult by the problems of identifying 'relevant' trends, forecasting the future and assessing the impact of environmental trends and changes. It is important to remember that the prime purpose of the assessment of environmental factors is to identify marketing opportunities and threats.

A key element of environmental appraisal for planning purposes is the analysis of the competitive environment. The marketing planner must identify competitors in existing and proposed markets and in particular should understand the competitive structure of relevant industries. In addition to this the strategic marketing planner must appraise and understand competitor objectives and strategies; their relative strengths and weaknesses; and their likely reactions to competitive moves. All of this requires an effective system of competitor intelligence-gathering activities.

The extent of competition in many markets has prompted considerable research regarding the relationship between a company's competitive position in an industry and the choice of strategies. We have seen that strategies differ according to a company's competitive market position. On the one hand a company's competitive position may be designated along a continuum ranging between 'dominant' to 'untenable'. An alternative perspective on competitive position is that of market leadership, challenger, follower or nicher. Both perspectives provide useful insight into possible marketing strategies. With respect to the competitor element of the environment, we have increasingly seen that marketers are drawing upon the concepts and principles developed by the military for the battlefield in developing suitable marketing strategies.

The assessment of an organization's strengths and weaknesses is the second key strand in the process of conducting a SWOT analysis. At first sight this seems straightforward. In fact, the analysis of strengths and weaknesses is complex and multifaceted. In particular, we have seen that the planner must think beyond simply listing resources, although the use of checklists can be helpful. It is important to establish the attributes to be assessed, with the key ones deriving from the key factors for competitive success in an industry which, in turn, are linked to how customers choose and what they consider to be 'good value'. Related to this, it is important to understand precisely what constitutes a 'strength' or a 'weakness', to establish the magnitude of these in the organization and assess these in relation to competition.

There are advantages to having consultants conduct a strengths and weaknesses assessment, although through cross-functional teamwork the problems of using company personnel to perform the analysis can be minimized. Valuable insights into organizational strengths and weaknesses can be gleaned from customers' perceptions of a company and its competitors and the use of profiling systems.

The SWOT analysis is an essential but preliminary step in the delineation and selection of marketing strategies. A strengths and weaknesses assessment provides a key input into defining the business, objective setting and strategy selection and implementation. Finally, we examined the notions of relating the analysis of strengths and weaknesses to the concept of 'core competencies' and 'marketing assets'.

## KEY TERMS

Intra-firm environment	398	Value chain analysis	420
Micro-environment	398	Primary activities	421
Macro-environment	399	Support activities	421
Socio-cultural environment	399	Vertical linkages	422
Environmental scanning	401	Horizontal linkages	422
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## CASE STUDY

**Pathological Investigations Ltd**

Bob Scott has just received the latest figures from his market research agency regarding last year's overall market position. He is pleased as this is the third year that the company in which he is marketing director, has come out leader in terms of market share.

The company, Pathological Investigations Ltd, was formed ten years ago and supplies specialist measuring and testing machinery for use primarily in pathological laboratories. From nothing, the company has grown by overtaking competitors in the market based on innovative new products, aggressive pricing and high levels of after-sales service and technical advice. When the company started, the present incumbents in the market were well established with stable market positions and traditional ways of trading. In fact Bob Scott's competitors had become complacent over the years. Although these competitors were well established and much larger than the new entrant, perhaps because of these characteristics, some of their products and technologies were outdated. For example, they did not include the most recent developments in pharmaceutical measuring and testing machinery from America. Technology had moved on and Scott's company spotted the opportunity of applying this new technology to a new range of products for the industry.

In addition to changes in technology, the market had also changed. Government initia-

tives had forced hospital administrators and purchasing officers to become more effective and efficient in their supplier choice for equipment and consumables. New systems of tendering were introduced which made existing supplier relationships, often developed over many years, less important as more and more emphasis in supplier choice was placed on value for money. Scott and his colleagues spotted these trends and decided there was an opportunity for a new competitor in the market.

Ten years on, Scott quite rightly could feel a degree of satisfaction in how things had gone. They had moved from being a market nicher, to being a market challenger, and eventually market leader in the short space of ten years.

Scott has a forthcoming meeting with his fellow directors in research and development, finance, personnel and production. He is worried that their now established position as market leader is beginning to lead to an air of complacency in the company. It seems to him that new product development has slowed, and there is not as much enthusiasm to secure new business. He is also worried that two more small new companies have entered the market with exceptionally good products and very cost-effective pricing policies.

He feels that at the forthcoming meeting he needs to impress upon his fellow directors the fact that history appears to be repeating itself.

**CASE STUDY QUESTION**

What elements of the marketing environment should Bob Scott and his marketing team analyse and assess with regard to developing future marketing plans, and how can the company attempt to protect its position as the market leader?

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