Environmental and Internal Analysis

- What are the major trends and probable changes in the marketing environment?
- Who are the main competitors, and how we can differentiate our offerings from competition?
- Who are the target customers, and what are their needs?
- What competitive advantages and core competences do the organization have? Can we sustain it?
Environmental and Internal Analysis

Macroenvironment

Political/Legal

Economic

Microenvironment

Social

Technological

Supplier

Company

Customer

Competitors

Distributor

Environment
Macro (remote) environment: PESTLE model

**PESTLE:**

- Political Factors
- Economic Factors
- Socio-cultural Factors
- Technological Factors
- Legal Factors
- Environment Factors

A framework that assists in analyzing the external (remote) environment and identifying the existing opportunities & threats
Macro (remote) environment: PESTLE model

◮Political Factors
◮These are all about how and to what degree a government intervenes in the economy.
◮This can include – government policy, political stability or instability in overseas markets, foreign trade policy, tax policy, trade restrictions and so on.
◮It is clear from the list above that political factors often have an impact on organizations and how they do business.
◮Organizations need to be able to respond to the current and anticipated future legislation, and adjust their marketing policy accordingly.
Macro (remote) environment: PESTLE model

- **Economic Factors**
  - Economic factors have a significant impact on how an organization does business and also how profitable they are.
  - Factors include - *economic growth, exchange rates, inflation, disposable income of consumers and businesses* and so on.
  - These factors can be further broken down into macro-economical and micro-economical factors.
    - Macro-economical factors deal with the management of demand in any given economy. Governments use interest rate control, taxation policy and government expenditure as their main mechanisms they use for this.
Macro (remote) environment: PESTLE model

Social Factors

Also known as socio-cultural factors, are the areas that involve the shared belief and attitudes of the population.

These factors include – population growth, age distribution, health consciousness, career attitudes and so on. These factors are of particular interest as they have a direct effect on how marketers understand customers and what drives them.
Macro (remote) environment: PESTLE model

Technological Factors

We all know how fast the technological landscape changes and how this impacts the way we market our products. Technological factors affect marketing and the management thereof in three distinct ways:

- New ways of producing goods and services
- New ways of distributing goods and services
- New ways of communicating with target markets
Legal Factors

Legal factors include - **health and safety, equal opportunities, advertising standards, consumer rights and laws, product labelling and product safety**.

It is clear that companies need to know what is and what is not legal in order to trade successfully. If an organization trades globally this becomes a very tricky area to get right as each country has its own set of rules and regulations.
Macro (remote) environment: PESTLE model

Environmental Factors

Environmental factors include ecological and environmental aspects such as *weather, climate, and climate change, availability of natural resources*, which may especially affect industries such as tourism and farming. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.

These factors have only really come to the forefront in the last fifteen years or so. They have become important due to the increasing scarcity of raw materials, pollution targets, doing business as an ethical and sustainable company.
The purpose:
- Identify and analyse the key external forces that affect the organisation ability in achieving its goals and objectives
- Assess the power of each factor and the likely response
Micro (competitive) environment: Porter’s five forces for competitive analysis

- Threat of new entrants
- Rivalry among existing competitors
- Threat of substitute products or services
- Bargaining power of suppliers
- Bargaining power of buyers
Porter’s five forces for competitive analysis: **Rivalry**

Competitive moves by a farm to handle high rivalry:

1. **Changing prices** - raising or lowering prices to gain a temporary advantage.
2. **Improving product differentiation** - improving features, implementing innovations in the manufacturing process and in the product itself.
   - E.g. Silicon in luxury watches
3. **Creatively using channels of distribution** - using vertical integration or using a distribution channel that is novel to the industry.
   - E.g. Timex moved from exclusive jewelry shops into drugstores and other non-traditional outlets and cornered the low to mid-price watch market.
Porter’s five forces for competitive analysis: **Rivalry**

Rivalry in an industry *increases* because of:

1. **A larger number of firms** increases rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.

2. **Slow market growth** increases rivalry and causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.
Porter’s five forces for competitive analysis: **Rivalry**

Rivalry in an industry **increases** because of-

3. **High fixed costs** result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.

4. **Highly perishable products** cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.
Porter’s five forces for competitive analysis: **Rivalry**

Rivalry in an industry **increases** because of-

5. **Low switching costs** increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.

6. **Low levels of product differentiation** is associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.
Porter’s five forces for competitive analysis: Rivalry
Rivalry in an industry increases because of-

7. **High exit barriers** place a high cost on abandoning the product. The firm must compete. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable.

8. **A diversity of rivals** with different cultures, histories, and philosophies make an industry unstable. There is greater possibility for misjudging rival's moves.
Porter’s five forces for competitive analysis: **Threat of Substitutes**

- To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product.
- As more substitutes become available, the demand becomes more vulnerable since customers have more alternatives.
- A close substitute product constrains the ability of firms in an industry to raise prices.
Porter’s five forces for competitive analysis: **bargaining power of buyer**

- Bargaining power of buyer *increases* if-
  - 1. There are a *few buyers* with significant market share
  - 2. Buyer *switching cost* is low (can switch anytime)
  - 3. The product is *standardized*
  - 4. Buyers hold *information and knowledge* about the product
  - 5. Buyers have *substitute products* in the market
Porter’s five forces for competitive analysis: **Bargaining power of suppliers**

- Bargaining power of suppliers *increases* because of-
  1. *suppliers are concentrated*: very few number of suppliers are responsible for the entire industry supplies
  2. *Long term relationship* between the company and the supplier. As a result switching supplier for the farm may be risky, may hamper the product quality and market share
Porter’s five forces for competitive analysis:

**Threat of new entrants**

- Threat of new entrants *reduces* if-

1. **Government** creates barriers: ex: Industries such as utilities
2. Organizational (Internal) **Economies of Scale**
3. High *set up cost*
4. High existing **brand identity** and established brand image
5. Buyers’ **switching cost** is high
6. Lack of access to necessary **inputs**
Analyzing Competitors

- **Direct competitors**: Organizations offering the same product or service to the same customer base

- **Indirect competitors**: Organizations that produce similar products and fulfill similar needs
Analysis of internal environment

The Purpose:

- Appraise/audit the organization resources and capabilities,
- Assess the organization competitive advantages
- Identify the organization major strengths and weakness
Analysis of internal environment:

Two models to use:

1. Resource audit
   - financial resources,
   - human resources,
   - physical resources,
   - intangible resources

2. Porter’s Value Chain Model:
   Help analysing Firm’s Competitive Advantage and Core Competencies
Porter’s Value chain model

Primary Activities

Support Activities

Firm Infrastructure
Human Resource Management
Technology Development
Procurement
Inbound Logistics
Operations
Outbound Logistics
Marketing And Sales
Service

Margin
Porter’s Value chain model

**Primary Activities:** Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. They consist of the following:

1. **Inbound logistics** – These are all the processes related to receiving, storing, and distributing inputs internally. Your supplier relationships are a key factor in creating value here.

2. **Operations** – These are the transformation activities that change inputs into outputs that are sold to customers. Here, your operational systems create value.

3. **Outbound logistics** – These activities deliver your product or service to your customer. These are things like collection, storage, and distribution systems, and they may be internal or external to your organization.

4. **Marketing and sales**

5. **After sales service**
Porter’s Value chain model

**Support Activities:** These activities support the primary functions

1. **Procurement (purchasing)** – This is what the organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices.

2. **Human resource management** – This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers.

3. **Technological development** – These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation.

4. **Infrastructure** – These are a company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage.
Value chain analysis:
Identifying Competitive Advantage

**Competitive advantage will arise through:**
- Providing buyer value comparable to competitors but performing value chain activities more efficiently – **cost based advantage**

**and / or**
- Performing value chain activities in unique ways that create greater buyer value than competitors and hence command a premium price – **differentiation based advantage**
Integrates the internal and external environmental analysis

- Not just a list of SWOT variables!
- SWOT/TOWS Matrix can be helpful
- SWOT/TOWS analysis is the alternative ways in which an organisation can use its specific strengths to capitalise on opportunities or to minimise threats and invest in available opportunities to overcome its weaknesses
SWOT (TOWS) matrix

<table>
<thead>
<tr>
<th>EXTERNAL FACTORS (EFAS)</th>
<th>INTERNAL FACTORS (IFAS)</th>
<th>Strengths (S)</th>
<th>Weaknesses (W)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunities</td>
<td></td>
<td><strong>SO STRATEGIES</strong>&lt;br&gt;List 5 - 10 external opportunities here&lt;br&gt;Generate strategies here that use strengths to take advantage of opportunities.</td>
<td><strong>WO STRATEGIES</strong>&lt;br&gt;List 5 - 10 internal weaknesses here&lt;br&gt;Generate strategies here that take advantage of opportunities by overcoming weaknesses</td>
</tr>
<tr>
<td>Threats (T)</td>
<td></td>
<td><strong>ST STRATEGIES</strong>&lt;br&gt;List 5 - 10 external threats here&lt;br&gt;Generate strategies here that use strengths to avoid threats</td>
<td><strong>WT STRATEGIES</strong>&lt;br&gt;Generate strategies here that minimize weaknesses and avoid threats</td>
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