

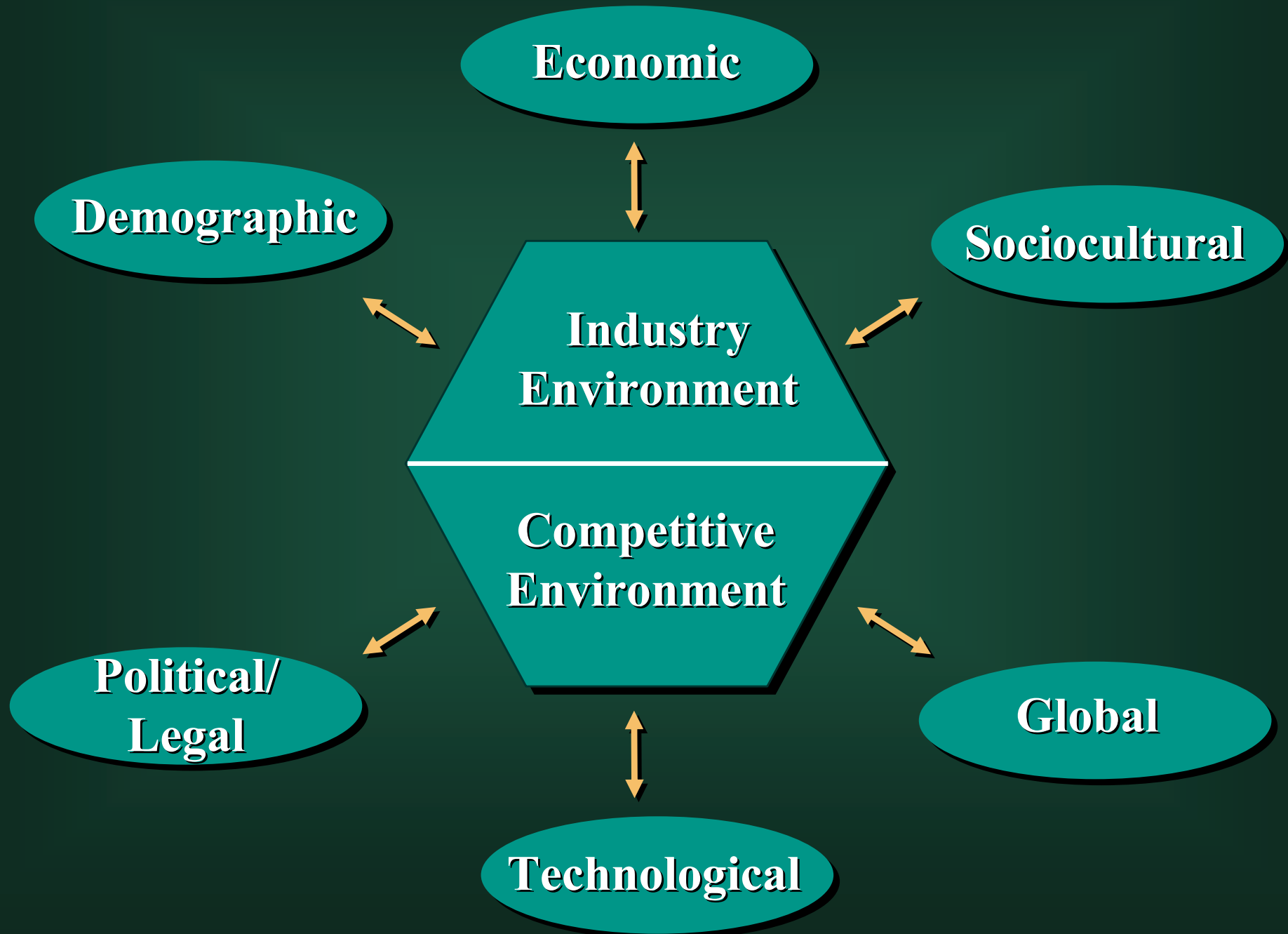
**The External Environment:
Opportunities, Threats,
Competition, and Competitor
Analysis**

&

Introduction to Marketing MIX

spring 2007

Components of the General Environment



Components of the General Environment

Demographic Segment	<ul style="list-style-type: none"> ◆ Population size ◆ Age structure ◆ Geographic distribution 	<ul style="list-style-type: none"> ◆ Ethnic mix ◆ Income distribution
Economic Segment	<ul style="list-style-type: none"> ◆ Inflation rates ◆ Interest rates ◆ Trade deficits or surpluses ◆ Budget deficits or surpluses 	<ul style="list-style-type: none"> ◆ Personal savings rate ◆ Business savings rates ◆ Gross domestic product
Political/Legal Segment	<ul style="list-style-type: none"> ◆ Antitrust laws ◆ Taxation laws ◆ Deregulation philosophies 	<ul style="list-style-type: none"> ◆ Labor training laws ◆ Educational philosophies and policies
Sociocultural Segment	<ul style="list-style-type: none"> ◆ Women in the workforce ◆ Workforce diversity ◆ Attitudes about work life quality 	<ul style="list-style-type: none"> ◆ Concerns about the environment ◆ Shifts in work and career preferences ◆ Shifts in preferences regarding product and service characteristics
Technological Segment	<ul style="list-style-type: none"> ◆ Product innovations ◆ Applications of knowledge 	<ul style="list-style-type: none"> ◆ Focus of private and government-supported R&D expenditures ◆ New communication technologies
Global Segment	<ul style="list-style-type: none"> ◆ Important political events ◆ Critical global markets 	<ul style="list-style-type: none"> ◆ Newly industrialized countries ◆ Different cultural and institutional attributes

External Environmental Analysis

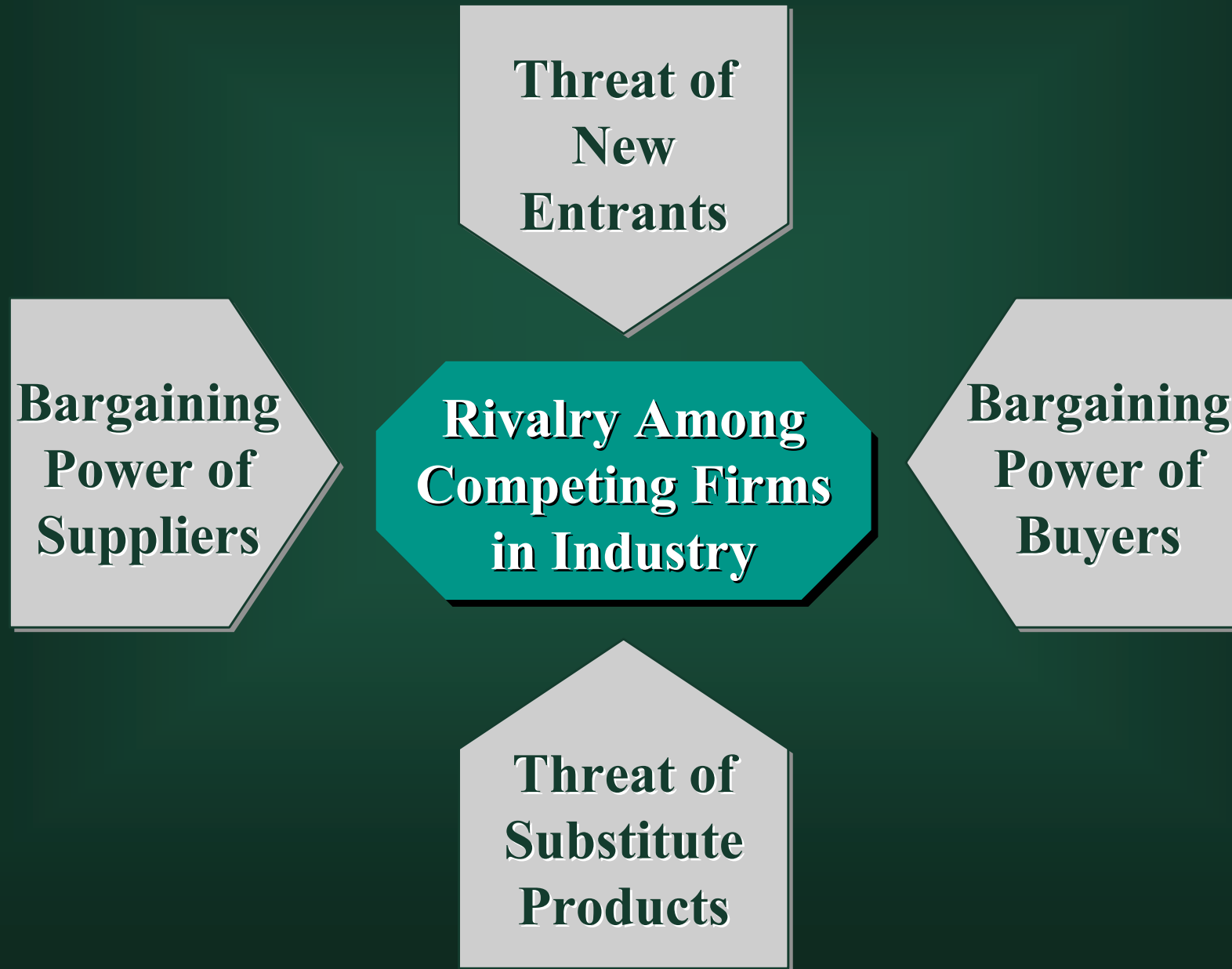
The external environmental analysis process should be conducted on a continuous basis. This process includes four activities:

- Scanning** Identifying early signals of environmental changes and trends
- Monitoring** Detecting meaning through ongoing observations of environmental changes and trends
- Forecasting** Developing projections of anticipated outcomes based on monitored changes and trends
- Assessing** Determining the timing and importance of environmental changes and trends for firms' strategies and their management

PESTE analysis

- **Political** – political system, stability, major parties, corruption
- **Economic** – GDP/capita, economic growth, share of economic sectors
- **Sociocultural** – social norms, codes of behaviour, religion
- **Technological** – research and development, innovations, ICT,
- **Environmental** – natural resources, geographical positioning

Porter's Five Forces Model of Competition



Porter's Five Forces Model of Competition

**Threat of
New
Entrants**

Threat of New Entrants



Barriers to Entry

- **Economies of Scale**
- **Product Differentiation**
- **Capital Requirements**
- **Switching Costs**
- **Access to Distribution Channels**
- **Cost Disadvantages Independent of Scale**
- **Government Policy**
- *Expected Retaliation*

Porter's Five Forces Model of Competition

**Threat of
New
Entrants**

**Bargaining
Power of
Suppliers**

Bargaining Power of Suppliers

Suppliers are likely to be powerful if:

Suppliers exert power in the industry by:

** Threatening to raise prices or to reduce quality*

Powerful suppliers can squeeze industry profitability if firms are unable to recover cost increases

- Supplier industry is dominated by a few firms
- Suppliers' products have few substitutes
- Buyer is not an important customer to supplier
- Suppliers' product is an important input to buyers' product
- Suppliers' products are differentiated
- Suppliers' products have high switching costs
- Supplier poses credible threat of forward integration

Porter's Five Forces Model of Competition

**Threat of
New
Entrants**

**Bargaining
Power of
Suppliers**

**Bargaining
Power of
Buyers**

Bargaining Power of Buyers

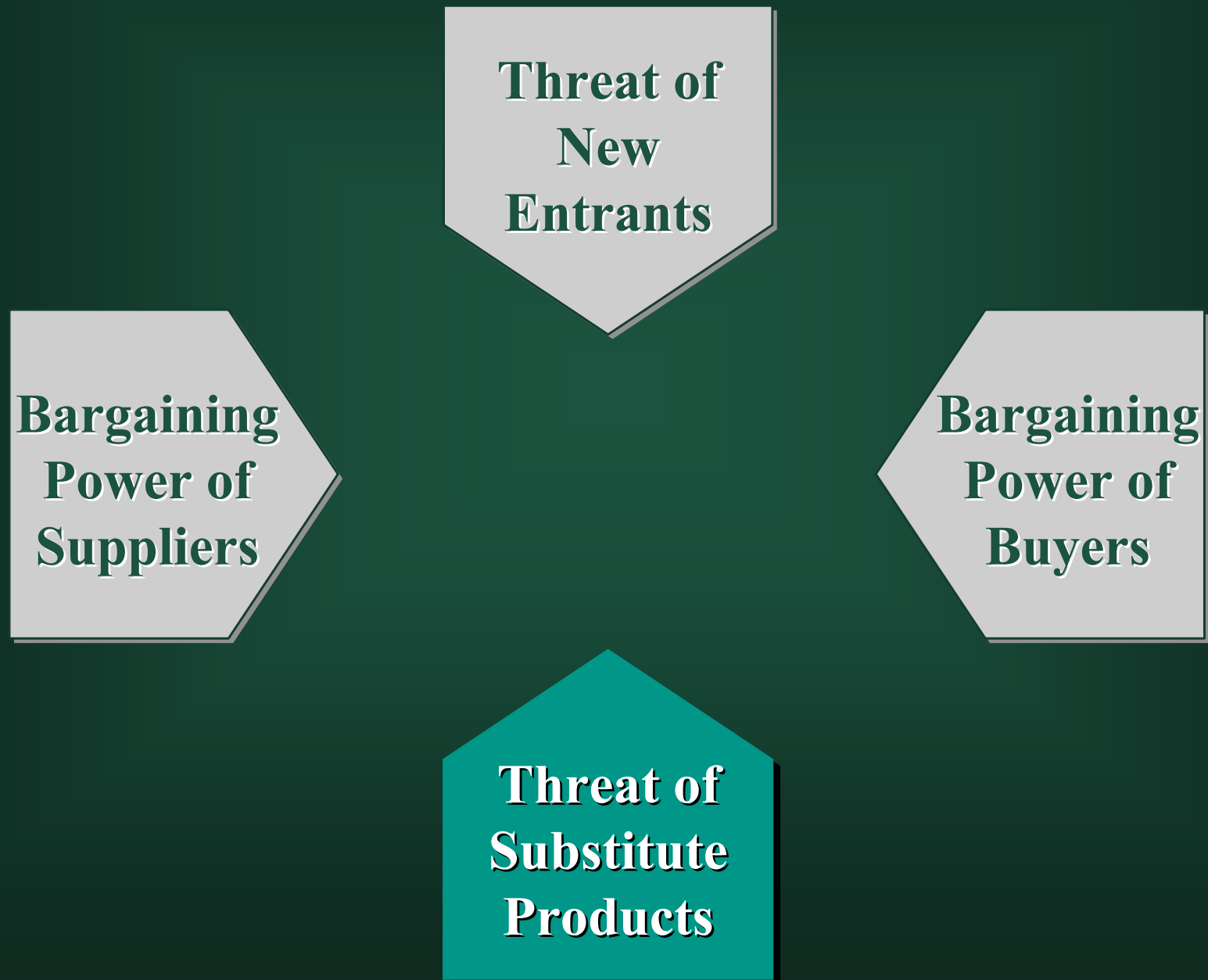
Buyer groups are likely to be powerful if:

- Buyers are concentrated or purchases are large relative to seller's sales
- Purchase accounts for a significant fraction of supplier's sales
- Products are undifferentiated
- Buyers face few switching costs
- Buyers' industry earns low profits
- Buyer presents a credible threat of backward integration
- Product unimportant to quality
- Buyer has full information

Buyers compete with the supplying industry by:

- * *Bargaining down prices*
- * *Forcing higher quality*
- * *Playing firms off of each other*

Porter's Five Forces Model of Competition



Threat of Substitute Products

Keys to evaluate substitute products:

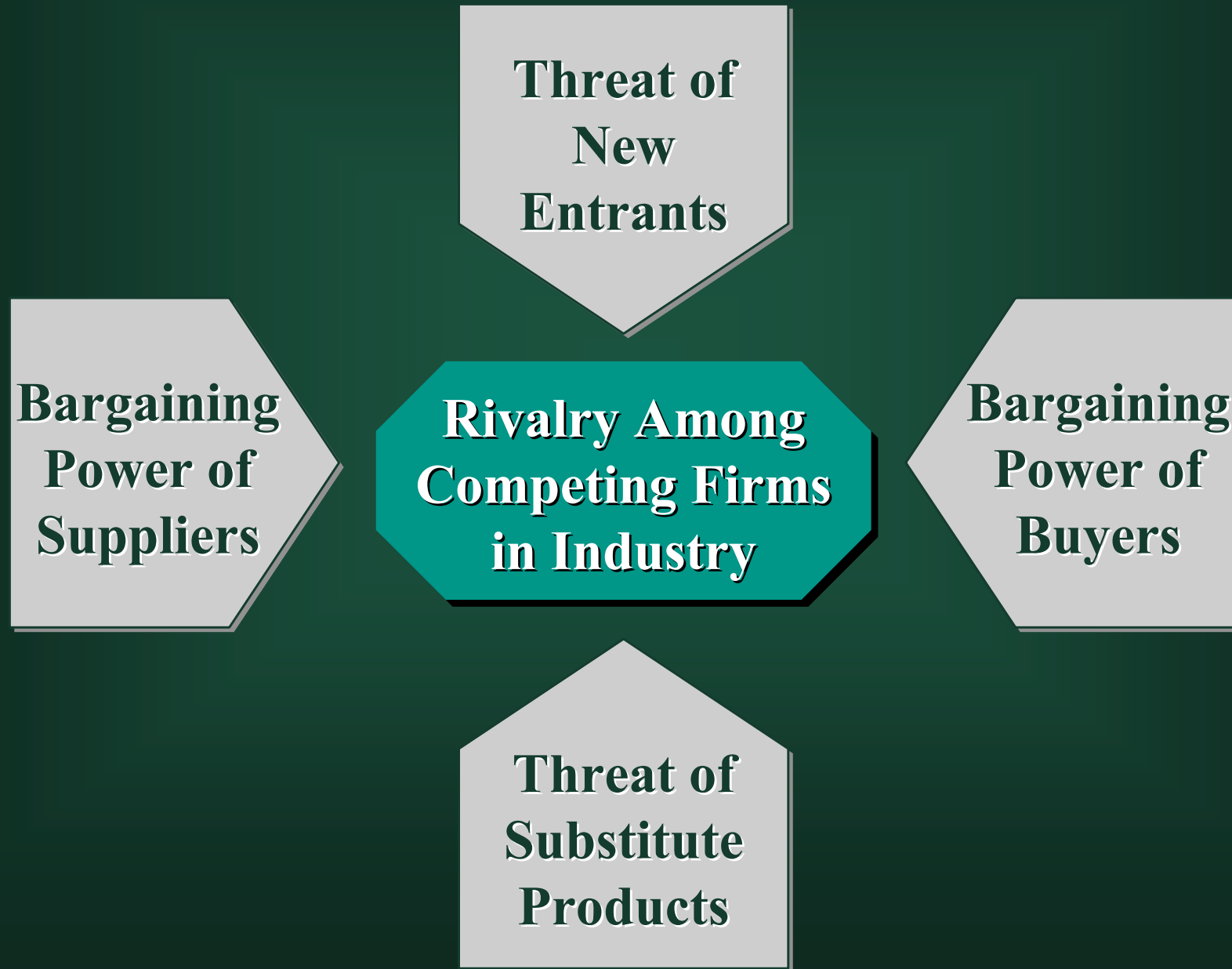
Products with similar *function* limit the prices firms can charge

Products with improving price/performance tradeoffs relative to present industry products

Example:

- Electronic security systems in place of security guards
- Fax machines in place of overnight mail delivery

Porter's Five Forces Model of Competition



Rivalry Among Existing Competitors

Intense rivalry often plays out in the following ways:

- Jockeying for strategic position
- Using price competition
- Staging advertising battles
- Increasing consumer warranties or service
- Making new product introductions

Occurs when a firm is pressured or sees an opportunity

- Price competition often leaves the entire industry worse off
- Advertising battles may increase total industry demand, but may be costly to smaller competitors

Rivalry Among Existing Competitors

Cutthroat competition is more likely to occur when:

- Numerous or equally balanced competitors
- Slow growth industry
- High fixed costs
- High storage costs
- Lack of differentiation or switching costs
- Capacity added in large increments
- Diverse competitors
- High strategic stakes
- High exit barriers

Rivalry Among Existing Competitors

High exit barriers are economic, strategic and emotional factors which cause companies to remain in an industry even when future profitability is questionable.

- Specialized assets
- Fixed cost of exit (e.g., labor agreements)
- Strategic interrelationships
- Emotional barriers
- Government and social restrictions

Effects of Entry Barriers and Exit Barriers on Industry Profits

Exit Barriers

Low

High

Low

Entry
Barriers

High

Effects of Entry Barriers and Exit Barriers on Industry Profits

		Exit Barriers	
		Low	High
Entry Barriers	Low	Low, Stable Returns	
	High		

Effects of Entry Barriers and Exit Barriers on Industry Profits

		Exit Barriers	
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	High	High, Stable Returns	

Effects of Entry Barriers and Exit Barriers on Industry Profits

		Exit Barriers	
		Low	High
Entry Barriers	Low	Low, Stable Returns	Low, Risky Returns
	High	High, Stable Returns	

Effects of Entry Barriers and Exit Barriers on Industry Profits

Exit Barriers

Low

High

Low

Low, Stable
Returns

Low, Risky
Returns

Entry
Barriers

High

High, Stable
Returns

High, Risky
Returns

Low	Low, Stable Returns	Low, Risky Returns
High	High, Stable Returns	High, Risky Returns

Competitor Analysis

The follow-up to Industry Analysis is effective analysis of a firm's *Competitors*



Competitor Analysis

Assumptions

What assumptions do our competitors hold about the future of industry and themselves?

Current Strategy

Does our current strategy support changes in the competitive environment?

Future Objectives

How do our goals compare to our competitors' goals?

Capabilities

How do our capabilities compare to our competitors?

Response

- What will our competitors do in the future?
- Where do we have a competitive advantage?
- How will this change our relationship with our competition?

Competitor Analysis

Future Objectives

- ★ How do our goals compare to our competitors' goals?
- ★ Where will emphasis be placed in the future?
- ★ What is the attitude toward risk?

What Drives the competitor?

Competitor Analysis

Future Objectives

- ☆ How do our goals compare to our competitors?
- ☆ Where are we currently competing?
- ☆ What are our long-term goals?

Current Strategy

- ★ How are we currently competing?
- ★ Does this strategy support changes in the competitive structure?

What is the competitor doing?

What can the competitor do?

Competitor Analysis

Future Objectives

- ☆ How do our goals compare to our competitors?
- ☆ Where do we want to be in the market place?
- ☆ What are our long-term goals and objectives?

Current Strategy

- ☆ How are we currently competing?
- ☆ Does our current strategy support our long-term goals?

Assumptions

- ★ Do we assume the future will be volatile?
- ★ What assumptions do our competitors hold about the industry and themselves?
- ★ Are we assuming stable competitive conditions?

What does the competitor believe about itself and the industry?

Competitor Analysis

Future Objectives

- ☆ How do our goals compare to our competitors?
- ☆ Where do we want to place ourselves in the market?
- ☆ What are our long-term goals?

Current Strategy

- ☆ How are we currently competing?

Assumptions

- ☆ Do we assume the future will be volatile?
- ☆ What are the key assumptions of our competitors?
- ☆ Are we a state-of-the-art company?

Capabilities

- ★ What are my competitors' strengths and weaknesses?
- ★ How do our capabilities compare to our competitors?

What are the competitor's capabilities?

Competitor Analysis

Future Objectives

- ☆ How do our goals compare to our competitors?
- ☆ Where do we want to be in the future?
- ☆ What are our key strategic initiatives?

Current Strategy

- ☆ How are we currently competing?

Assumptions

- ☆ Do we assume the future will be volatile?
- ☆ What are our key assumptions?

Capabilities

- ☆ What are my competitors' strengths and weaknesses?
- ☆ How do our capabilities compare to our competitors?

Response

- ☆ What will our competitors do in the future?
- ☆ Where do we have a competitive advantage?
- ☆ How will this change our relationship with our competition?

Competitor Analysis - example

Characteristic	Description
Ownership structure	
Connection to other competitors (horizontal/vertical)	
Target segments (type of clients, sectoral, regional)	
Rate of successfulness	
Estimated number of projects processed in 2000-2006	
Positioning for the period 2007-2013	
The size of a team	Nr. of FTEs: Nr. of external workforce:
Estimation of sales (per last 3 years)	
Strengths of the company	+
Weaknesses of the company	-

Komentář [MKr1]: E.g. consulting company is owned by a supplier of machinery/bank/insurance company, etc.

Komentář [MKr2]: In %-estimation or based on their statistics divided by 1,3-1,5 :-)
If possible, separated by grammes

Komentář [MKr3]: Or 1991-2006

Komentář [MKr4]: Segments, size of clients, regional targeting, etc...

Komentář [MKr5]: In the Czech Republic, there is a central registr gathering basic financial statements (P&L and Balance sheets) from all joint stock companies and larger companies in other forms. And there is also a commercial database of such information - if it is in Romania, it will be OK.

Elements of a Marketing Strategy

Basic elements of a marketing strategy consist of:

1. The target market
2. The marketing mix variables (elements) of:
 - ✓ Product
 - ✓ Place (distribution)
 - ✓ Promotion
 - ✓ Price

The Four Ps vs. The Four Cs



Ps, Ps and the others

Packaging

Personalization

Sales force

Public relations

Public opinion

Politics

Prospects

SERVICES

- Services are deeds, processes and performance
- Intangible, but may have a tangible component
- Generally produced and consumed at the same time
- Need to distinguish between **SERVICE** and **CUSTOMER SERVICE**

The 7 Ps of Services Marketing Mix

5] PEOPLE

- employees

6] PHYSICAL EVIDENCE

- environment in which the service is delivered and any tangible goods that facilitate the performance and communication of the service

7] PROCESS (PROCEDURES)

- procedures, mechanism and flow of activities by which a service is acquired

Marketing Mix

Product Strategy

- Deciding what goods or services the firm should offer to a group of consumers.
- Includes making decisions about
 - Customer service
 - Package design
 - Brand names
 - Trademarks
 - Patents
 - Warranties
 - Life cycle of a product
 - Positioning the product in the marketplace
 - New product development

Marketing Mix

Distribution Strategy

- Ensures that consumers find their products in the proper quantities at the right times and places.
- Involves:
 - modes of transportation
 - warehousing
 - inventory control
 - order processing
 - selection of marketing channels

Marketing Mix

Promotion Strategy

- The communication link between sellers and buyers
 - Communicate messages directly through salespeople or indirectly through advertisements and promotions.
 - Companies use an approach called *integrated marketing communications (IMC)* so the consumer receives a unified and consistent message.

Marketing Mix

Pricing Strategy

- Methods of setting profitable and justifiable prices.
- Closely regulated and subject to considerable public scrutiny.
- A major influence is competition.