

# LECTURE 7

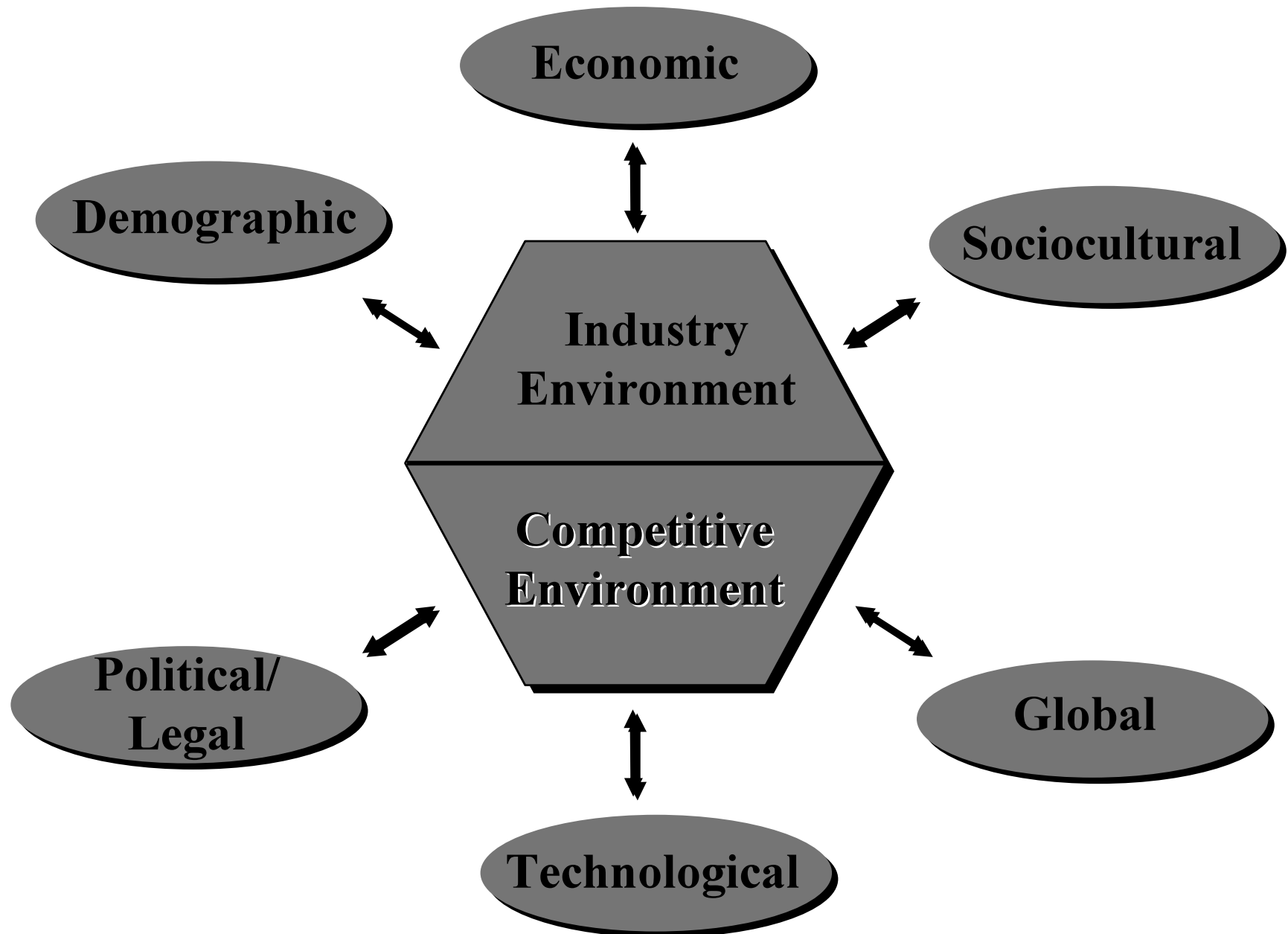
## **The External Environment: Opportunities, Threats, Competition, and Competitor Analysis**

**&**

## **Introduction to Marketing MIX**

spring 2005

# Components of the General Environment



# Components of the General Environment

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

# External Environmental Analysis

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

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

# **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:**

- 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

**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**



# Porter's Five Forces Model of Competition

**Threat of  
New  
Entrants**

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**Bargaining  
Power of  
Suppliers**

**Bargaining  
Power of  
Buyers**

# Bargaining Power of Buyers

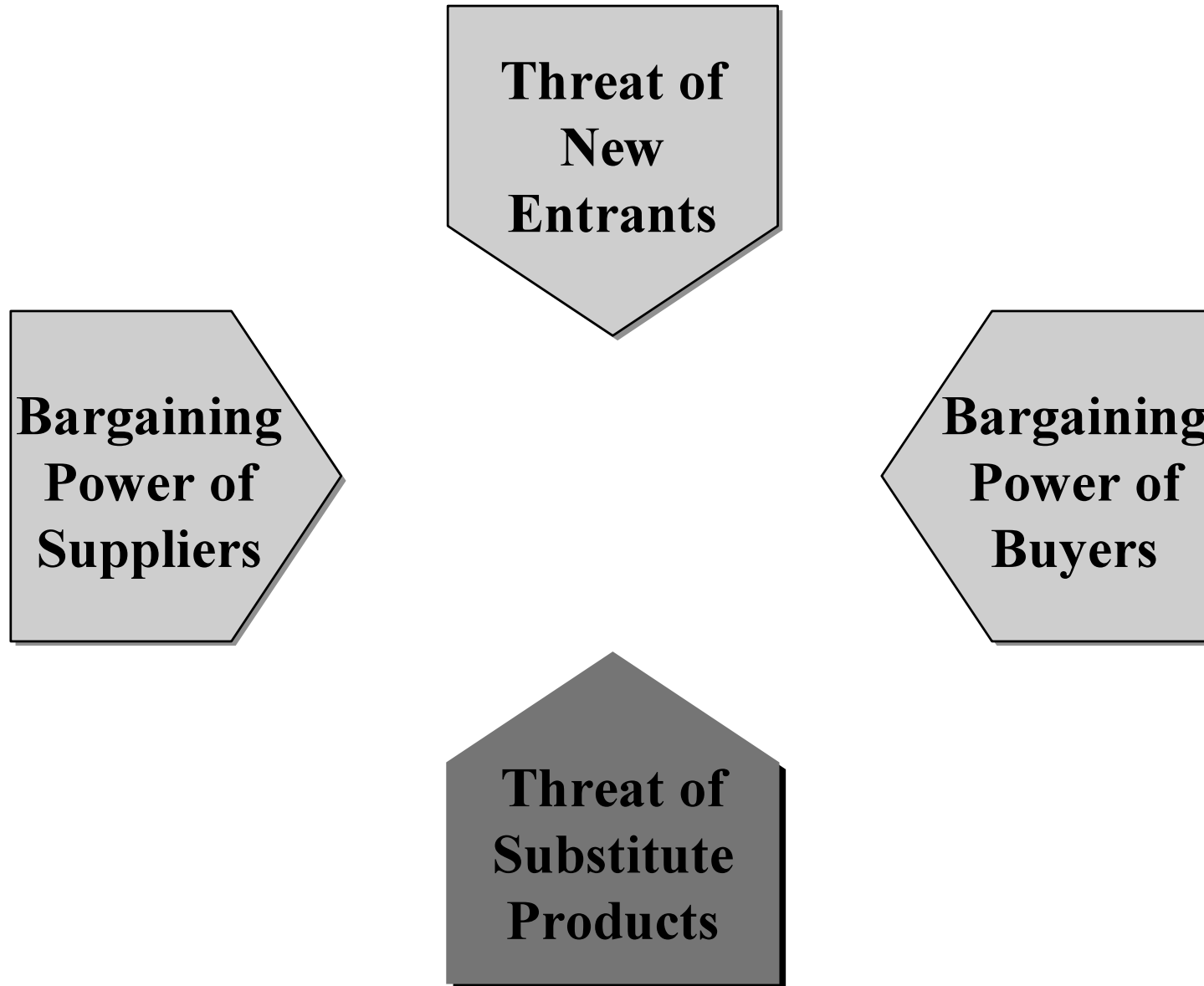
**Buyer groups are likely to be powerful if:**

- 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

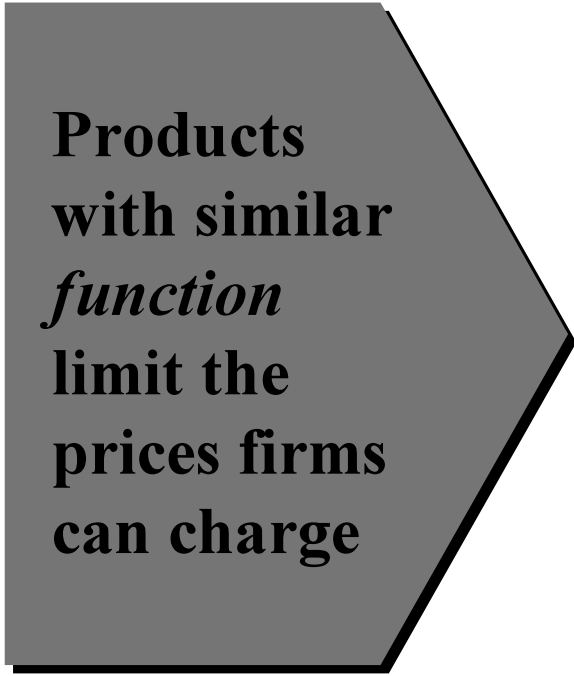
**Buyers compete with the supplying industry by:**

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

# Porter's Five Forces Model of Competition



# Threat of Substitute Products



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

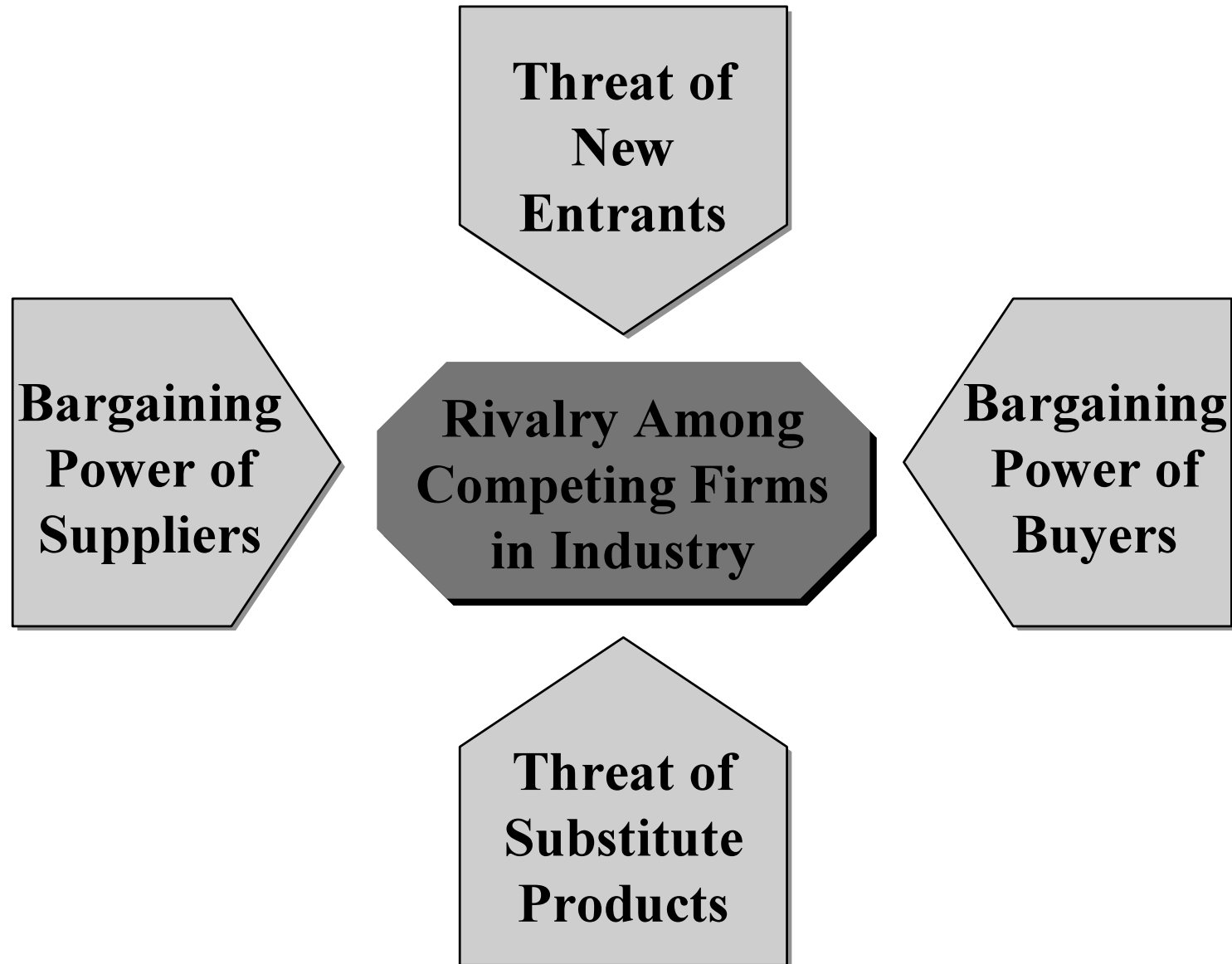
**Keys to evaluate substitute products:**

**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
Entry Barriers	Low		
	High		

# Effects of Entry Barriers and Exit Barriers on Industry Profits

		Exit Barriers	
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Entry Barriers	Low	Low, Stable Returns	
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# Effects of Entry Barriers and Exit Barriers on Industry Profits

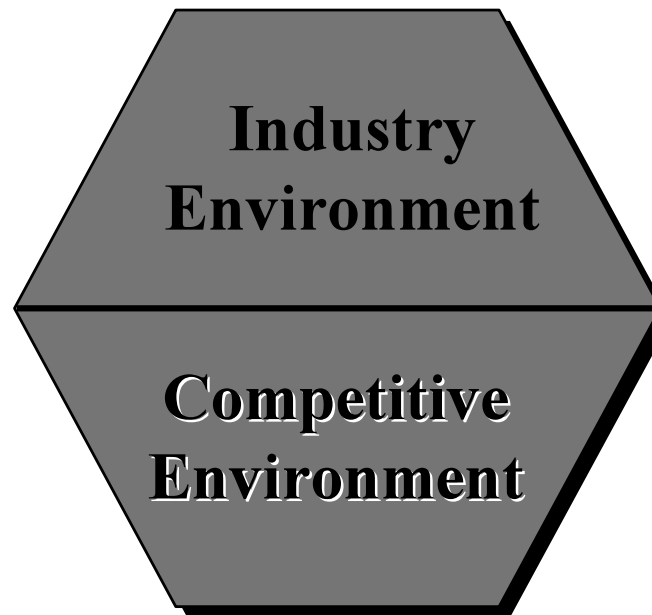
		Exit Barriers	
		Low	High
Entry Barriers	Low	Low, Stable Returns	Low, Risky Returns
	High	High, Stable Returns	

# Effects of Entry Barriers and Exit Barriers on Industry Profits

		Exit Barriers	
		Low	High
Entry Barriers	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 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 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?

## Current Strategy

- ☆ How are we currently competing?
- ☆ Do we have a competitive advantage?

## 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?
- ☆ Do we have a competitive advantage?

## Assumptions

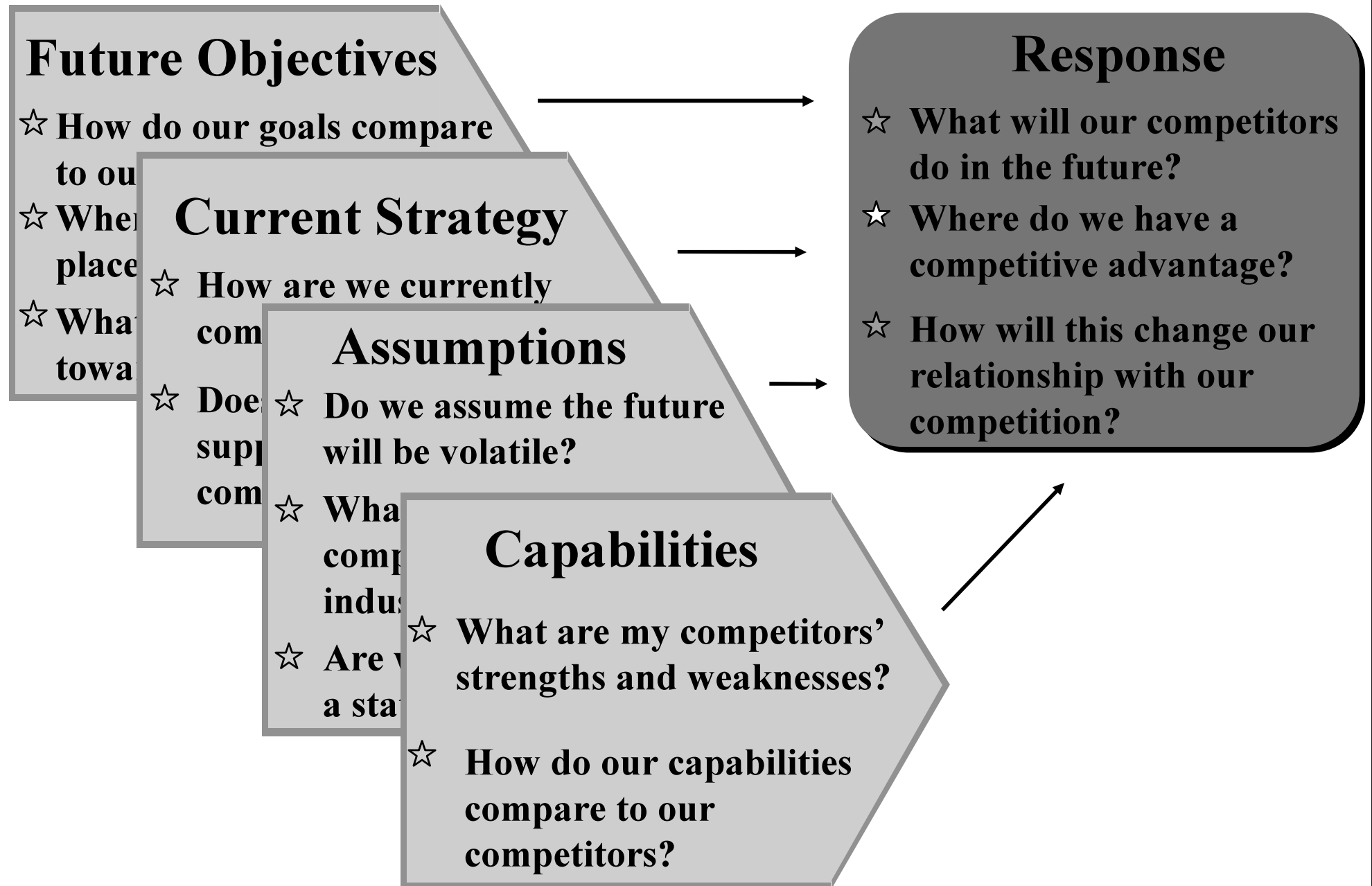
- ☆ Do we assume the future will be volatile?
- ☆ What are the key assumptions in our industry?
- ☆ Are we in a stable market?

## Capabilities

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

What are the competitor's capabilities?

# Competitor Analysis

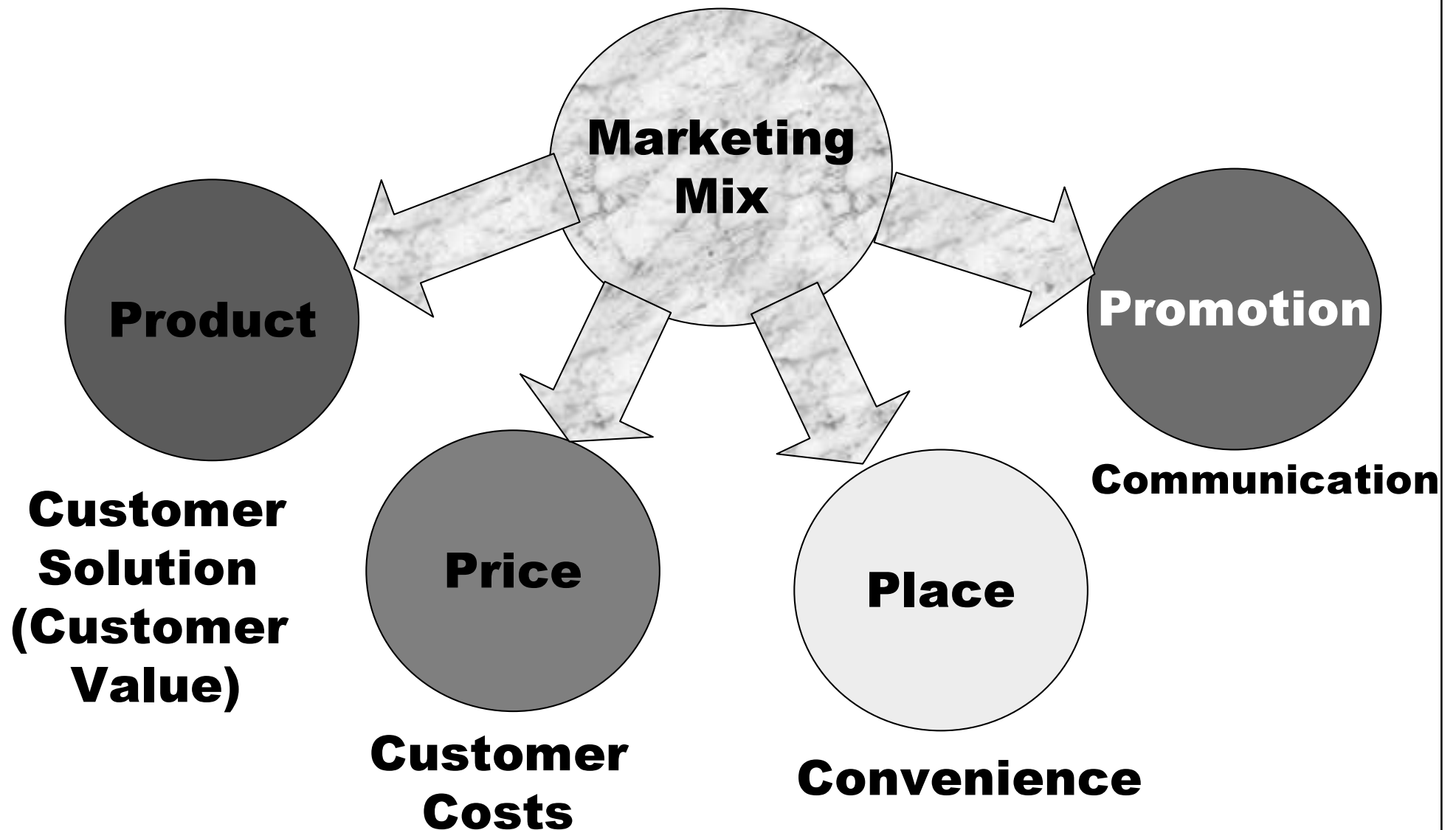


# Elements of a Marketing Strategy

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.