

# **Lesson 3**

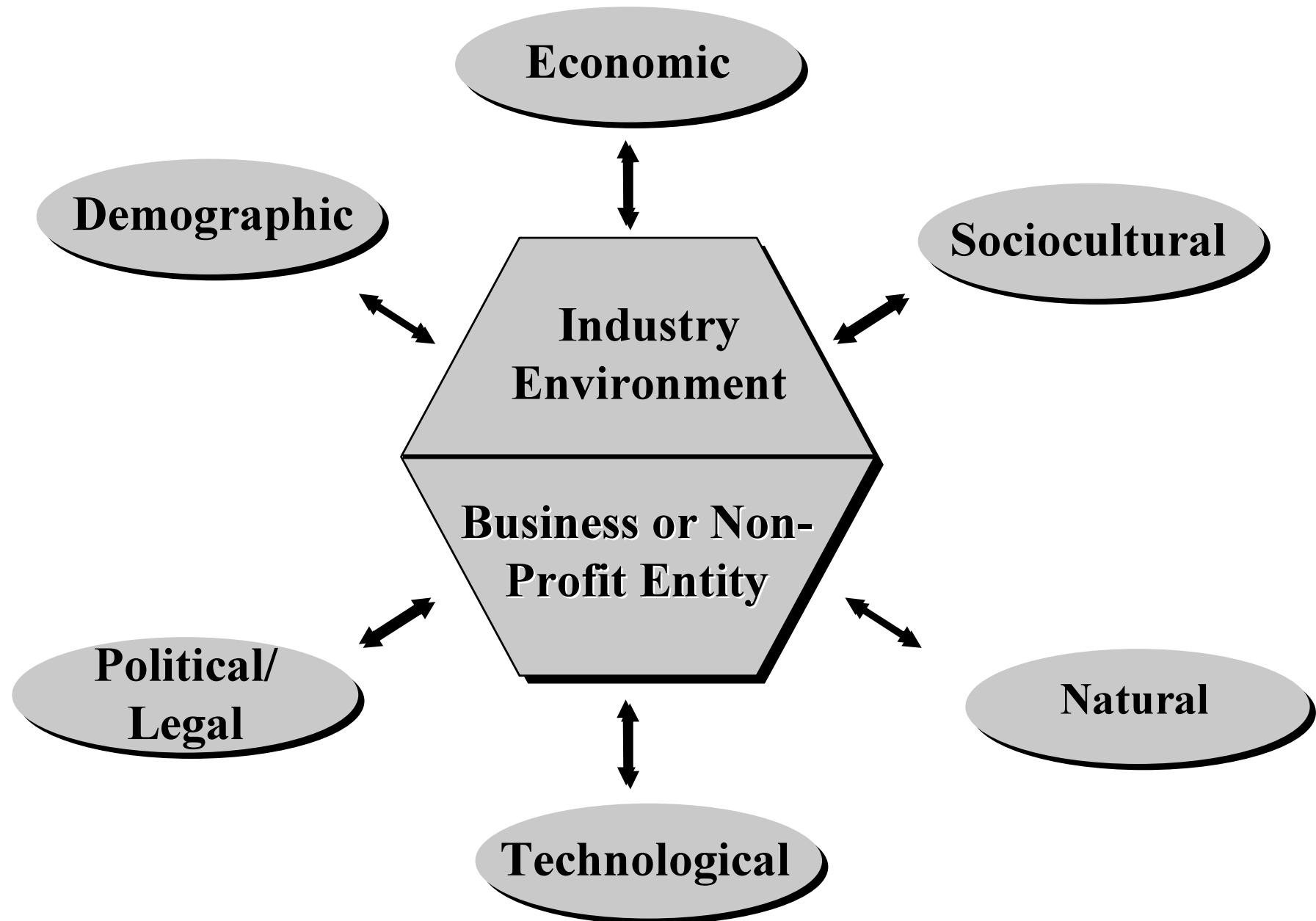
**Marketing Environment**

**SWOT analysis**

**Porter's Five Forces**

**Marketing Planning**

# Components of the Macro Environment



# Marketing Orientation Sounds Easy, Isn't it?

- Even the “best” firms sometimes backslide into a production orientation
- In today's highly competitive markets it is often difficult to
  - keep up with changing customer needs/changing market tastes
  - beat aggressive competitors to the punch
  - find the right focus -- one that matches the firm's objectives and resources to market opportunities
  - offer customers value



# SWOT Analysis

- Strengths
- Weaknesses
- Opportunities
- Threats

# The purpose of SWOT Analysis

- It is an easy-to-use tool for developing an overview of a company's strategic situation
  - It forms a basis for matching your company's strategy to its situation

# Strengths

- **What are the Strengths?**
  - Manufacturing Efficiency?
  - Good Market Share?
  - Strong Financial Picture?
  - Qualified Labour Force?
  - Superior Reputation?

# Weaknesses

- **What are the Weaknesses?**
  - Outdated Facilities?
  - Inadequate R & D?
  - Obsolete Technologies?
  - Weak Management?
  - Past Planning Failures?
  - Product-related?
  - Market-related?

# Opportunities

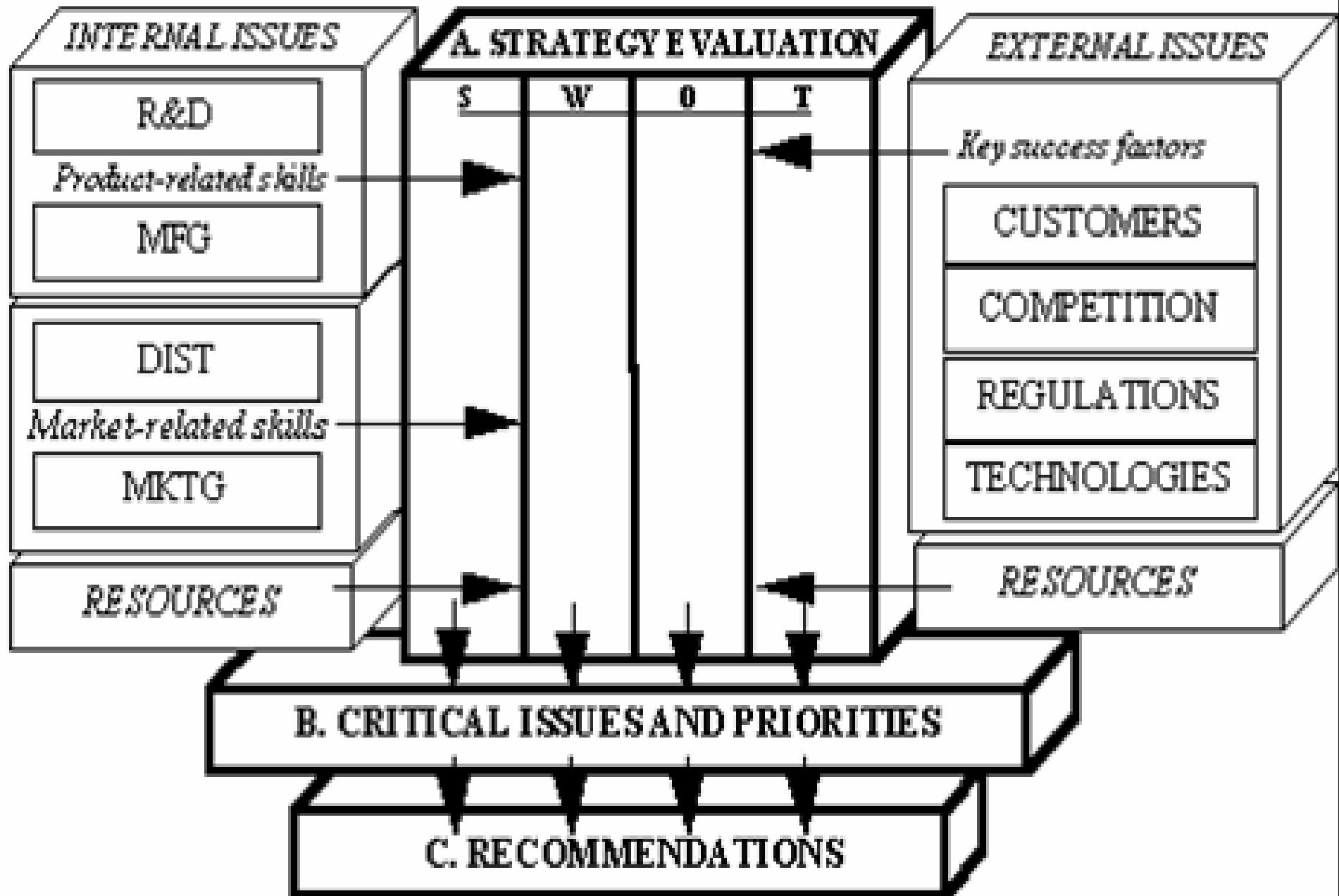
- An OPPORTUNITY is a chance for firm growth or progress due to a favorable juncture of circumstances in the business environment.
- Possible Opportunities:
  - Emerging customer needs
  - Quality Improvements
  - Expanding global markets
  - Legal requirements/limits



# Threats

- A THREAT is a factor in your company's external environment that poses a danger to its well-being.
- Possible Threats:
  - New entry by competitors
  - Changing demographics/shifting demand
  - Emergence of cheaper technologies
  - Regulatory requirements

# Evaluation



# Identify Critical Issues and Priorities

- The SWOT analysis should lead to critical issues that a firm must address to maintain its competitive and financial performance

# Recommendations

- Your recommendations **MUST** be based on the analysis performed.
- What are priorities:
  - short-term
  - long-term
- Capabilities of management
- Infrastructure: product, market
- Product-related functions (R&D, manufacturing, etc.)

## **Your Recommendations should:**

- **Help achieve good fit with the overall situation**
- **Help build competitive advantage**
- **Contribute to higher company performance or a better situation**

# Opportunities and Threats form a basis for EXTERNAL analysis

- By examining opportunities, you can discover untapped markets, and new products or technologies, or identify potential avenues for diversification.
- By examining threats, you can identify unfavorable market shifts or changes in technology, and create a defensive posture aimed at preserving your competitive position.

# Create a Plan of Action

- What steps can you take to:
  - Capitalize on your strengths
  - Overcome or minimize your weaknesses
  - Take advantage of some new opportunities
  - Respond to the threats
- Set goals and objectives, like with any other plan

# The purpose of Five-Forces Analysis

- The five forces are environmental forces that impact on a company's ability to compete in a given market.
- The purpose of five-forces analysis is to diagnose the principal competitive pressures in a market and assess how strong and important each one is.



# **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**

# 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  
New  
Entrants**

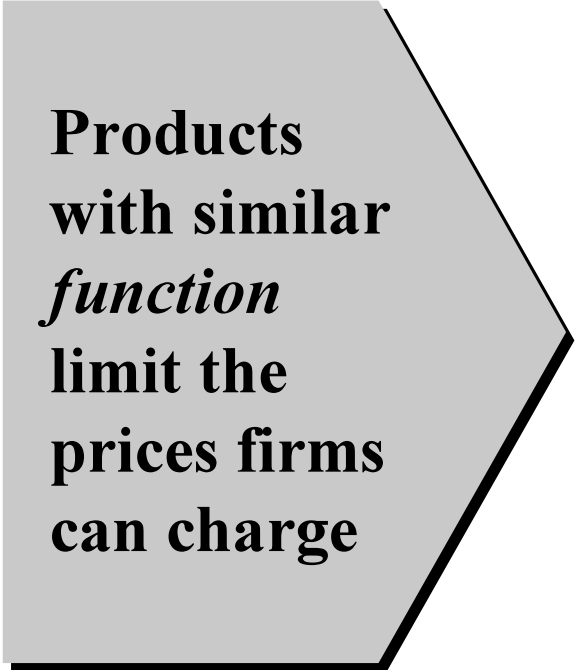
The diagram illustrates Porter's Five Forces Model of Competition. It features five grey, arrow-shaped boxes arranged in a circle around a central point. The boxes are: 'Threat of New Entrants' (top), 'Threat of Substitute Products' (bottom), 'Bargaining Power of Suppliers' (left), and 'Bargaining Power of Buyers' (right). The fifth force, 'Rivalry Among Existing Firms', is not explicitly labeled in this diagram but is implied by the central focus of the model.

**Bargaining  
Power of  
Suppliers**

**Bargaining  
Power of  
Buyers**

**Threat of  
Substitute  
Products**

# Threat of Substitute Products



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

**Keys to evaluate substitute products:**

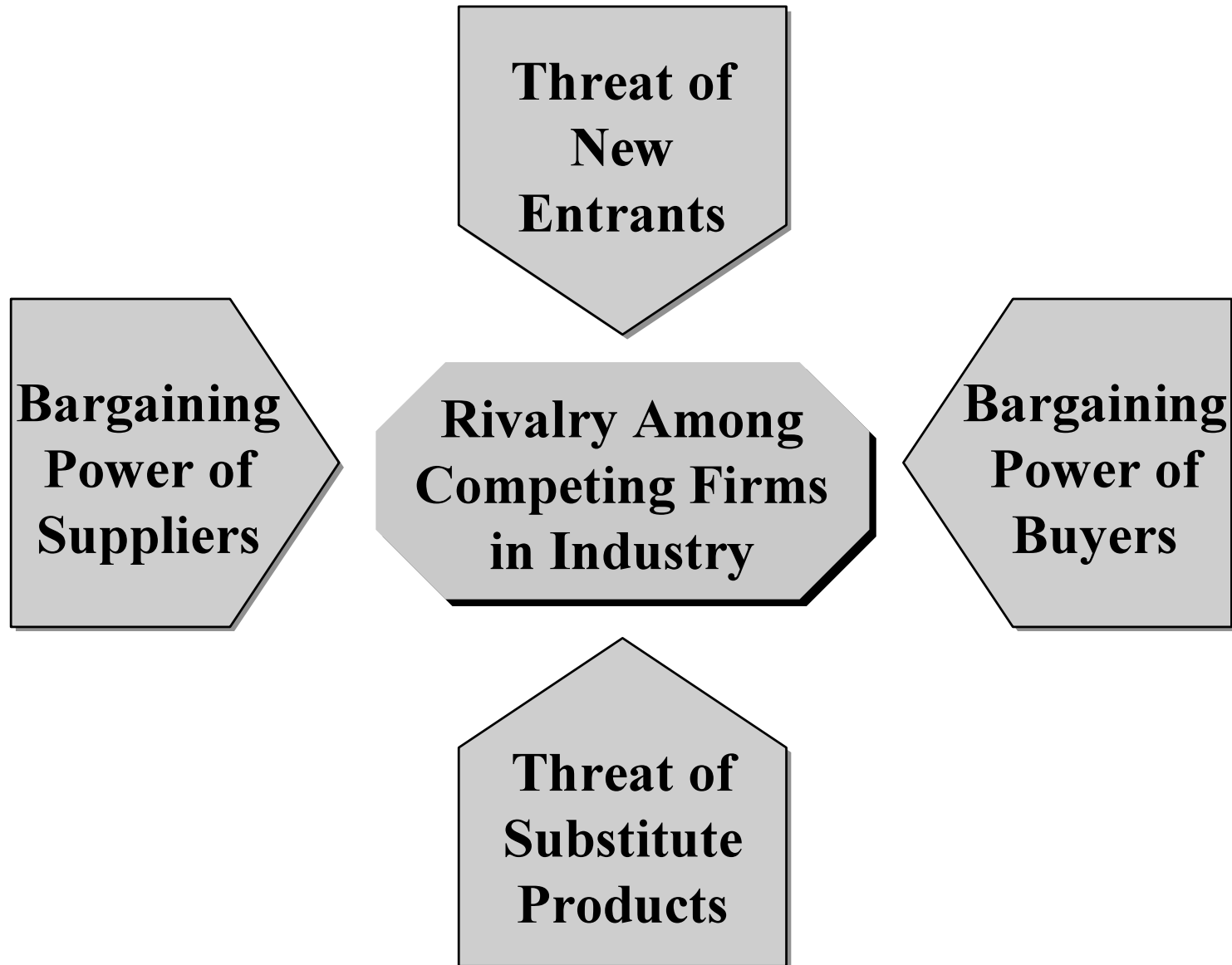
**Products with improving price/performance tradeoffs relative to present industry products**

***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:

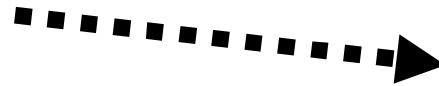
- Numerous or equally balanced competitors
- Slow growth industry
- High fixed costs
- High storage costs
- Lack of differentiation or switching costs
- Capacity added in large increments
- Diverse competitors
- High strategic stakes
- High exit barriers

# The Five Forces are Unique to Every Industry

- Five-Forces Analysis is a framework for analyzing a particular industry.
  - Yet, the five forces affect all the other businesses in that industry.

# Marketing Management Process

Match resources to  
market opportunities



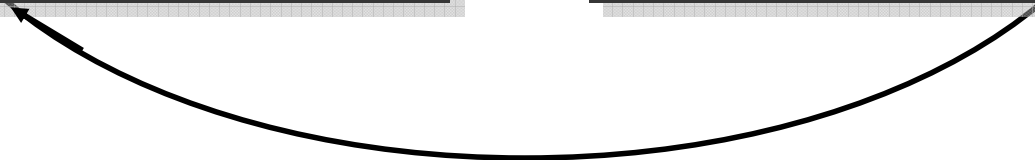
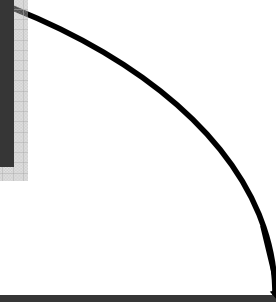
**Whole-Company  
Management  
Planning**

**Adjust Plans  
As Needed**

**(1) Marketing  
Planning**

**(3) Control Marketing  
Plan(s)**

**(2) Implement Marketing  
Plan(s)**



# The Four Ps of the Marketing Mix

