

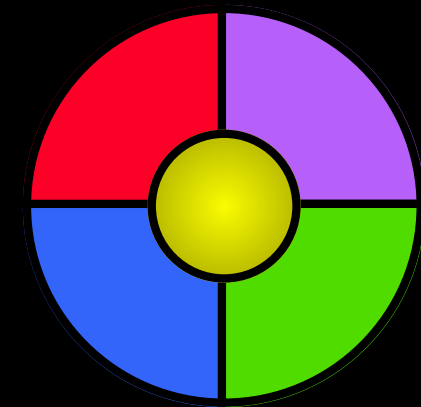
# **Lesson 3:**

**Marketing Environment**

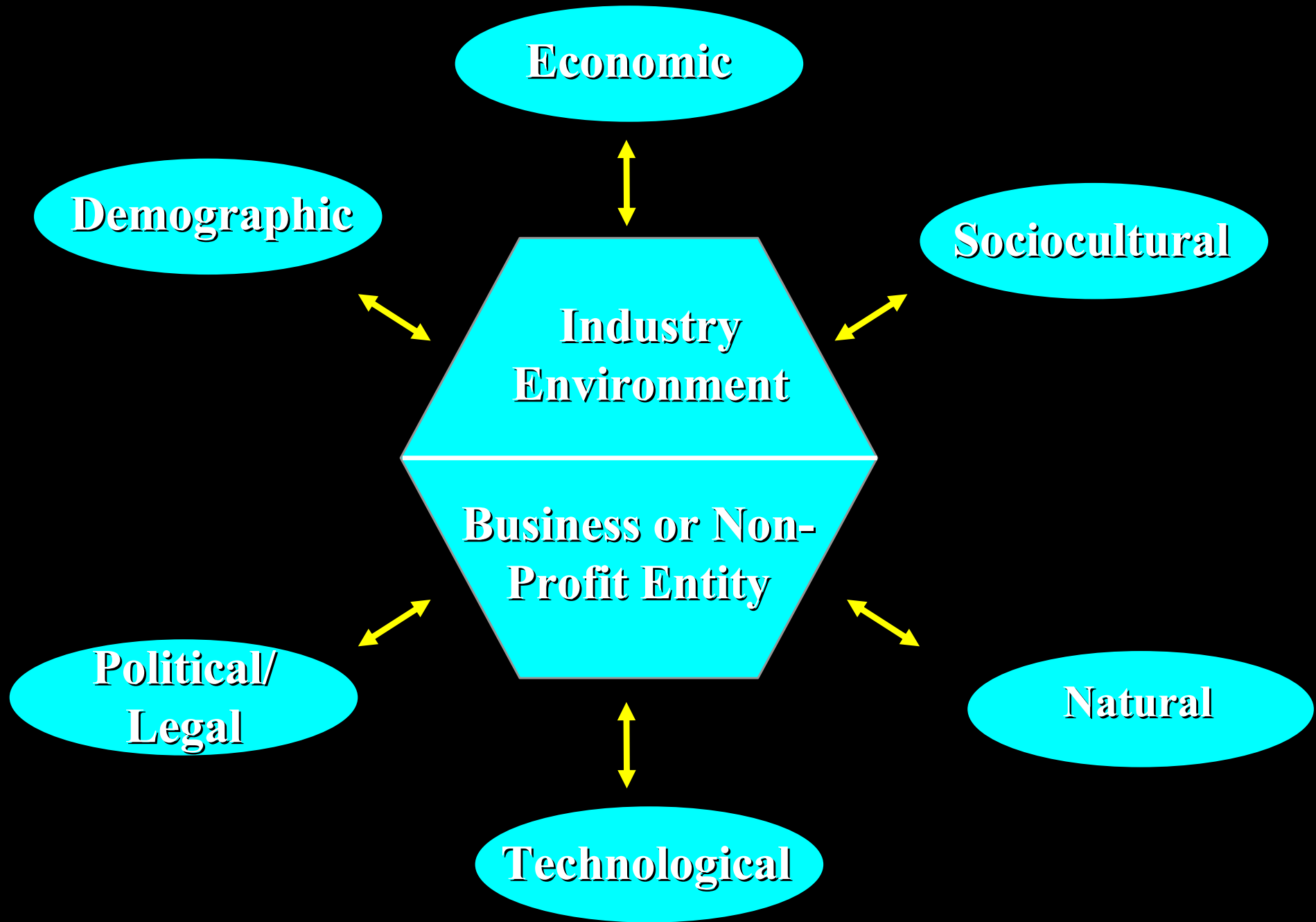
**SWOT analysis**

**Porter's Five Forces**

**Marketing Planning**



# Components of the MKT 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

# Strenghts

- **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  - Outdated Facilities?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

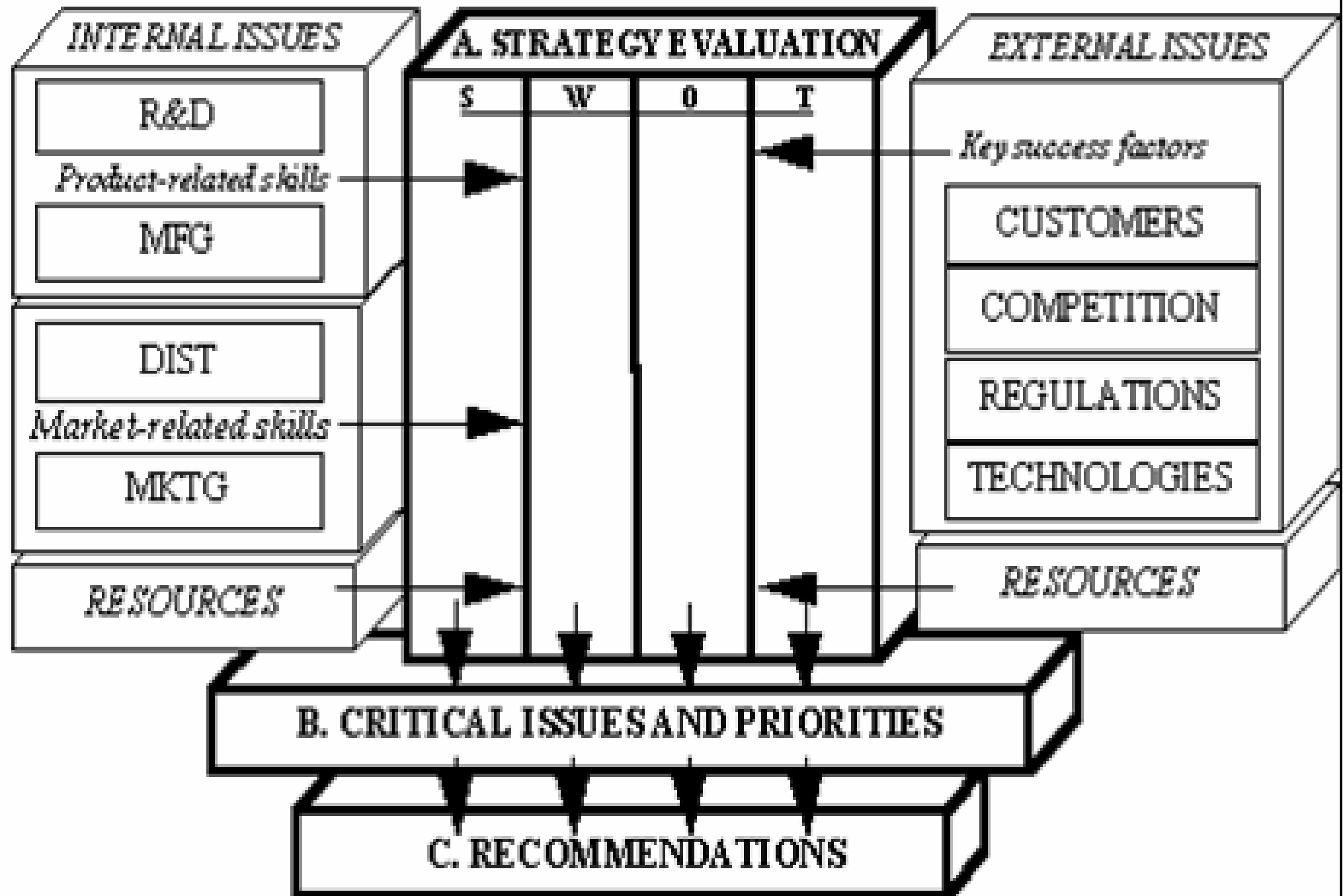
- An OPPORTUNITY is a chance for firm growth or progress due to a favorable juncture of circumstances in the business environment.
- Possible Opportunities:
  - Emerging customer needs
  - Quality Improvements
  - Expanding global markets
  - Legal requirements/limits



# 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 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

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

# Porter's Five Forces Model of Competition

**Threat of  
New  
Entrants**

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graph TD; A[Threat of New Entrants] --- B[Bargaining Power of Suppliers]; A --- C[Bargaining Power of Buyers];
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**Bargaining  
Power of  
Suppliers**

**Bargaining  
Power of  
Buyers**

# Bargaining Power of Buyers

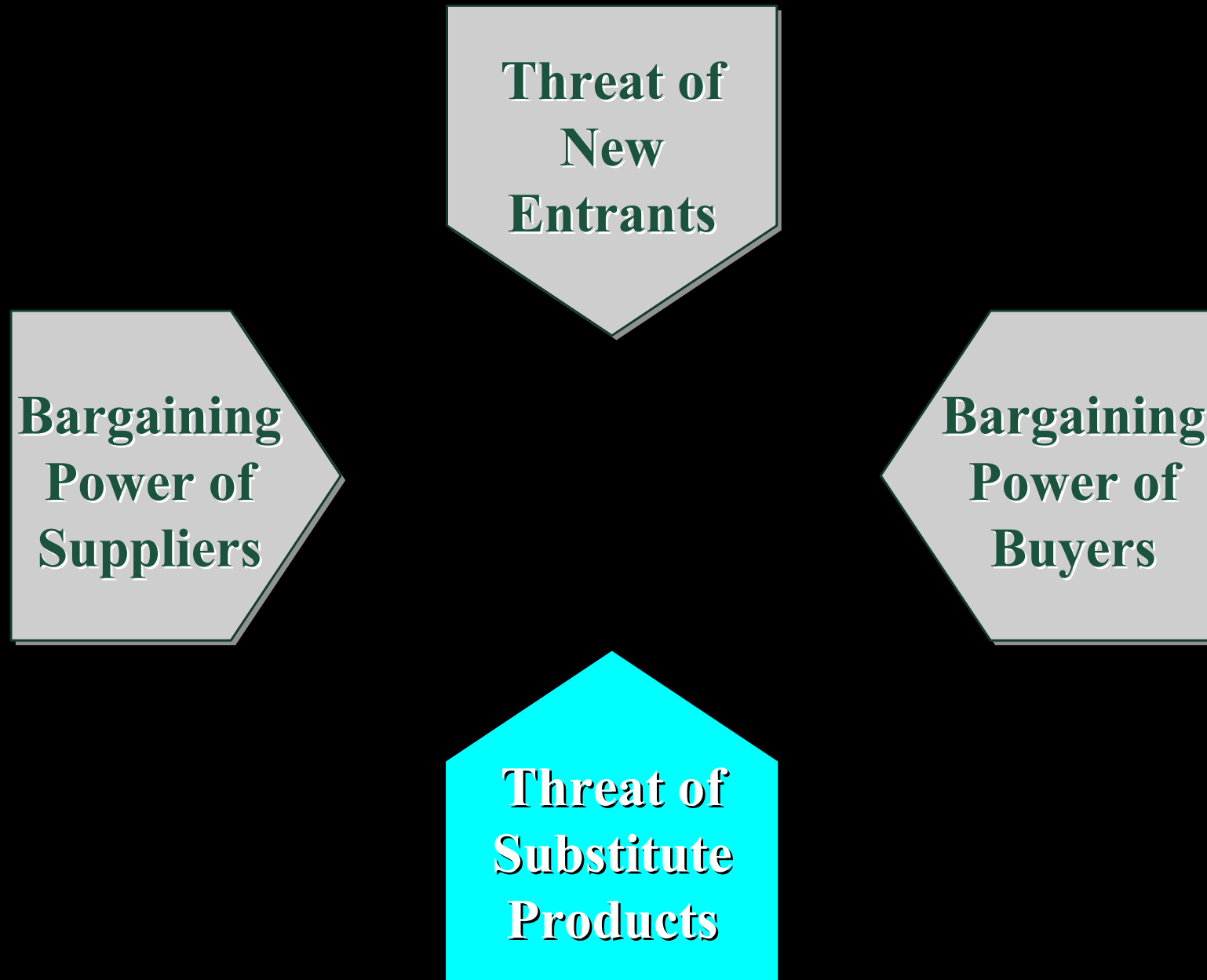
Buyer groups are likely to be powerful if:

- 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

Keys to evaluate substitute products:

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

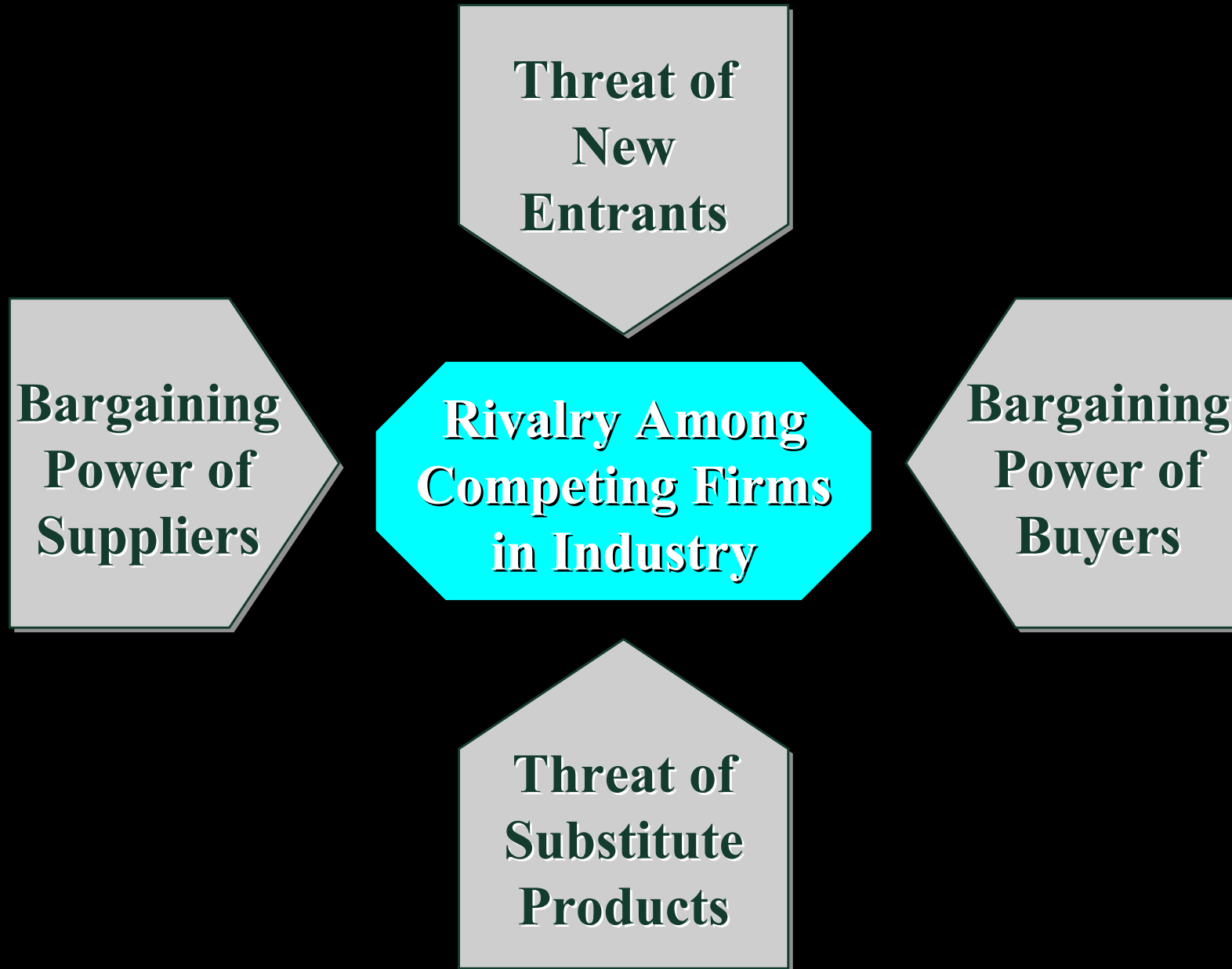
Products with improving price/performance tradeoffs relative to present industry products

***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

# 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.