CHAPTER 5

Situation Analysis

The Context for Strategy Development
A situational analysis consists of different methods used with the same goal to figure out the company’s capacities, potential customers, and the business environment.

After that, company owners can generate an appropriate marketing strategy to apply for their business.
There are **three methods** typically used to complete a situational analysis, namely:

1. **5Cs Analysis**, 
2. **SWOT analysis**, and 
3. **Porter five forces analysis**.

Among them, **SWOT analysis is the most popular method used by several companies.**
Situation Analysis

- 5Cs Analysis
- SWOT Analysis
- Porter five forces
Analysis Alone Is Not a Solution

Data Is Not the Same as Information

Data – a collection of numbers or facts that have the potential to provide information

Information – data that have been transformed or combined with other data in a manner that makes them useful to decision makers.

The Benefits of Analysis Must Outweigh the Costs.

Conducting a Situation Analysis
Conducting a Situation Analysis is a Challenging Exercise.

Should provide a complete picture of three key environments:

1) Internal,
2) Customer, and
3) External
Marketing Environment

Micro Environment
(Partially controllable)

- Task Environment
  - Suppliers
  - Intermediaries
  - Customers
  - Competitors

- Internal Environment
  - The Company itself
  - Members, Make-up
  - Management, Money, etc.

Macro / External Environment
(Uncontrollable)

- Political, Economic
- Demographic
- Technological
- Natural, Global
- Social

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Marketing Environment

- Micro Environment
  - Demographic
  - Economic
  - Natural

- Macro Environment
  - Cultural
  - Political
  - Technological

- Company
  - Publics
    - Competitors
  - Customers
  - Suppliers
  - Intermediaries
Conducting a Situation Analysis

- Internal Environment
- Customer Environment
- External Environment
**Business Environment**

**Internal Environment**
- Value System
- Mission and Objectives
- Organisational Structure
- Corporate Culture
- Quality of Human Resources
- Labour Unions
- Physical Resources and Technological Capabilities

**External Environment**

**Micro Environment**
- Organization
- Customers
- Competitors
- Market
- Suppliers
- Intermediaries

**Macro Environment**
- Economic
- Political - Legal
- Technological
- Global
- Socio - Cultural
- Demographic
Conducting a Situation Analysis

The Internal Environment
- Review of current objectives, strategy, and performance
- Availability of resources
- Organizational culture and structure

The Customer Environment
- Who are our current and potential customers?
- What do customers do with our products?
- Where do customers purchase our products?
- When do customers purchase our products?
- Why (and how) do customers select our products?
- Why do potential customers not purchase our products?

The External Environment
- Competition
- Economic growth and stability
- Political trends
- Legal and regulatory issues
- Technological advancements
- Sociocultural trends
Internal, Customer, and External Environments
Of the three major environments in a situation analysis (internal, customer, external), which do you think is the most important in a general sense? Why? What are some situations that would make one environment more important than the others?
1. The Internal Environment

- **Review of Current Objectives, Strategy and Performance.**
  - An important input to later stages in the planning process.
  - Poor or declining performance must be the result of:
    - Goals or objectives that are inconsistent with the customer or external environments.
    - Faulty marketing strategy.
    - Poor implementation.
    - Changes in the customer or external environments that are beyond the control of the firm.
1. The Internal Environment

**Availability of Resources:**
- Includes a review of financial, human, and experience resources, as well as resources from key relationships
- Financial resources tend to get most attention

**Organizational Culture and Structure:**
- Problems can arise when marketing does not hold a prominent position in the organizational hierarchy.
- Culture and structure are relatively stable but can be affected by mergers.
2. The Customer Environment

- Who are our Current and Potential Customers?
- What do Customers do with our Products?
- Where do Customers Purchase our Products?
- When do Customers Purchase our Products?
- Why (and How) do Customers Select our Products?
- Why do Potential Customers not Purchase our Products?
Understanding the motivations of a firm’s noncustomers is often just as important as understanding its customers. Look again at the reasons why an individual would not purchase a firm’s products. How can a firm reach out to noncustomers and successfully convert them to customers?
3. The External Environment

A. Competition.
B. Economic Growth and Stability.
C. Political Trends.
D. Legal and Regulatory Issues.
E. Technological Developments.
F. Sociocultural Trends.
A. The Competitive Environment

- **Brand Competitors:**
  - Market products with similar features and benefits to the same customers at similar prices.

- **Product Competitors:**
  - *Compete in the same product class, but with products that are different in features, benefits, and price.*

- **Common Competitors:**
  - *Market very different products that solve the same problem or satisfy the same basic customer need.*
<table>
<thead>
<tr>
<th>Product Category (Need Fulfilled)</th>
<th>Brand Competitors</th>
<th>Product Competitors</th>
<th>Generic Competitors</th>
<th>Total Budget Competitors</th>
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</thead>
<tbody>
<tr>
<td><strong>Compact SUVs</strong> (Transportation)</td>
<td>Chevrolet Equinox</td>
<td>Mid-size SUVs</td>
<td>Rental cars</td>
<td>Vacation</td>
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<td>Ford Escape</td>
<td>Trucks</td>
<td>Motorcycles</td>
<td>Debt reduction</td>
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<td>Honda CR-V</td>
<td>Passenger cars</td>
<td>Bicycles</td>
<td>Home remodeling</td>
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<td>Jeep Compass</td>
<td>Minivans</td>
<td>Public transportation</td>
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<td><strong>Soft Drinks</strong> (Refreshment)</td>
<td>Coca-Cola Zero</td>
<td>Tea</td>
<td>Tap water</td>
<td>Candy</td>
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<td></td>
<td>Diet Coke</td>
<td>Orange juice</td>
<td>Gum</td>
<td>Potato chips</td>
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<td>Pepsi Cola</td>
<td>Bottled water</td>
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<td>Diet Pepsi</td>
<td>Energy drinks</td>
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<td><strong>Movies</strong> (Entertainment)</td>
<td>Harry Potter</td>
<td>Cable TV</td>
<td>Athletic events</td>
<td>Shopping</td>
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<td>Twilight</td>
<td>Pay-Per-View</td>
<td>Arcades</td>
<td>Reading</td>
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<td>Star Trek</td>
<td>Video rentals</td>
<td>Concerts</td>
<td>Fishing</td>
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<tr>
<td><strong>Colleges</strong> (Education)</td>
<td>New Mexico</td>
<td>Trade School</td>
<td>Books</td>
<td>New Cars</td>
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<td>Florida State</td>
<td>Community college</td>
<td>CDs</td>
<td>Vacations</td>
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<td>LSU</td>
<td>Online programs</td>
<td>Apprenticeship</td>
<td>Investments</td>
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Stages of Competitive Analysis

- **Identification:**
  - Identify all current and potential competitors.

- **Characteristics:**
  - Assess key competitors’ size, strategy, profitability, markets, etc.

- **Assessment:**
  - Assess key competitors’ strengths and weaknesses.

- **Capabilities:**
  - Focus the analysis on competitors’ marketing capabilities.

- **Response:**
  - Estimate competitors’ most likely strategies and responses under different environmental situations
B. Economic Growth and Stability

- Economic change has a deep impact on marketing strategy.

- **General Economic Conditions**
  - *Inflation, employment, income, interest rates, taxes, trade restrictions, tariffs, business cycle,*

- **Consumer Issues**
  - *Willingness to spend, confidence, spending patterns.*
C. Political, Legal, and Regulatory Issues

- The views of elected officials can affect marketing strategy.
  - *Examples:* immigration, taxes, retirement, healthcare
  - *Lobbying is vital to marketing strategy in highly regulated industries.*

- Firms must stand by the law, but many laws are unclear and difficult to enforce.
  - *Example key issues:* court decisions, corporate governance, trade agreements.
D. Technological Advancements

- Technology refers to the processes used to create “things” considered to be new.

  - **Frontstage Technology:**
    - Advances that are noticeable to customers...what customers think of when they think of technological advancements.
    - **Examples:** smartphones, GPS, microwave ovens.

  - **Backstage Technology:**
    - Advances that are not noticeable to customers...these advances make marketing activities more efficient and effective.
    - **Examples:** computer technology, near-field communication
E. Sociocultural Trends

- Social and cultural influences that cause changes in attitudes, beliefs, norms, customs, and lifestyles.

- Sociocultural forces can have a deep effect on the way customers live and buy products.

- Changes in customer demographics and values have a considerable impact on marketing.
Example Trends in the U.S. Sociocultural Environment

- **Demographic Trends**
  - Population growth in Sun Belt states
  - Increasing population diversity

- **Lifestyle Trends**
  - Clothing becoming more casual, especially at work
  - Time spent watching television and reading newspapers has declined

- **Value Trends**
  - Greater focus on ethics and social responsibility.
  - Growing uncertainty about business.
Growth in the Number of Older Americans

Note: Data for 2010–2050 are projections of the population.
Reference population: These data refer to the resident population.
Many firms have corporate affairs specialists on staff to track emerging trends and develop strategies for dealing with external concerns.

**Key Corporate Affairs Activities:**
- Corporate communication
- Government relations
- Investor relations
- Corporate philanthropy
- Corporate sustainability
- Policy analysis
1. **Customers**: Determine the *target customers* & their *needs*.

2. **Competition**: Analyze others competing for the target customers’ needs.

3. **Company**: “SWOT” analysis to meet the customer needs

4. **Collaborators**: Outside sources that can help

5. **Climate/ PESTEL**:

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<th>T</th>
<th>TECHNOLOGICAL</th>
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<td>S</td>
<td>SOCIAL</td>
<td>L</td>
<td>LEGAL</td>
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</tbody>
</table>
Situation Analysis: 1. Customer

- **Process:**
  - Determine the *target customers* & their *needs*.

- **Principles:**
  - Value
  - Satisfaction
  - Recommendation

- **Examples:**
  - Market segments
  - Frequency of purchases
  - Quantity of purchases
  - Channel (retail, online, …)
  - Customer needs
  - Trends over time
Situation Analysis : 2. Competition

- **Process:**
  - Analyze others competing for the target customers’ needs

- **Principles:**
  - Opportunities & Threats
  - Market Share
  - Different levels of current/prospective

- **Examples:**
  - Is the threat active or potential?
  - Product features comparisons?
  - Other strengths and weaknesses vs. competitor
Situation Analysis : 3. Company

- **Process:**
  - “SWOT” analysis to meet the customer needs

- **Principles:**
  - Objectives
  - SWOT
  - Strategies
  - Technology
  - Political

- **Examples:**
  - Analysis of Objectives
  - Marketing strategy
  - Marketing mix (6 Ms)
  - Performance & efficiency
  - Product line
Situation Analysis: 4. Collaborators

- **Process:**
  - *Outside sources that can help.*

- **Principles:**
  - *Shared interests.*

- **Examples:**
  - *Distribution Channels*
    - (Amazon, Alibaba, …)
  - *Complementary businesses*
    - (Airlines, Hotels, Rent-a-car, …)
Situation Analysis: 5. Climate/PESTEL

- P: Political
  - trade regulations, labor laws, taxes, ...

- E: Economic
  - Rates of economic growth, interest, exchange, inflation
  - Costs of labor, goods

- S: Social
  - Cultural aspects, demographics (age, economic, ...), education, trends, ... population growth, education, trends, ...
Situation Analysis : 5. Climate/ PESTEL

- **T : Technological**
  - Automation, technology advances, technological incentives, R&D activity
  - Can determine barriers to entry, production, outsourcing, costs, quality, ...

- **E: Environmental**
  - Environmental aspects (weather, climate change, ...) which may impact industries (farming, financial, health, ..)

- **L : Legal**
  - Laws (consumer, financial, employment, antitrust, safety, ...)
Situation Analysis- 5Cs: Summary

- **Situation Analysis:**
  - **Customers** (Target)
  - **Competition** (Threats, Strengths/Weaknesses)
  - **Company** (SWOT)
  - **Collaborators** (Outside Sources)
  - **Climate /PESTEL**: 
Porter five forces

Rivalry in the industry

Threats of substitutes goods

Power of suppliers

Threats of new entrants

Power of customers