Market and Environmental Analysis

5.1   LEARNING OBJECTIVES

When you have read this chapter you should be able to understand:

(a) why a regular and detailed analysis of the organization's environment is important;

(b) the key elements of the environment;

(c) how firms go about analysing the environment;

(d) how environmental factors are changing;

(e) the dimensions of environmental scanning systems.

5.2   INTRODUCTION

The changing business environment (or the emergence of a newmarketing reality)

If there is a single issue or theme which now links all types and sizes of organization, it is that of the far faster pace of environmental change and the consequential greater degree of environmental uncertainty than was typically the case even a few years ago. This change and uncertainty has been manifested in a wide variety of ways, and has led to a series of environmental pressures and challenges with which managers need to come to terms: a number of these are illustrated in Figure 5.1. Although the 12 points identified in Figure 5.1 are not intended either as a complete or a definitive list of the sorts of challenges that managers now face, they go some way towards illustrating the nature of the ways in which organizational environments are changing and how the pressures upon managers

1. Higher levels of over-capacity in many markets, and the increasingly global nature of many markets' tendency for strategic herding.

2. Product proliferation and ever-tighter levels of product parity.

3. Shorter product life cycles.

4. The emergence of a customer who is more demanding and discriminating (refer to Chapter 6).

5. A decline in levels of loyalty.

6. An increasing complex, aggressive and inter-connected competitive environment (refer to Chapter 7).

7. The erosion of many of the traditional bases of competitive advantage and the loss of differentiation.

8. Downward price pressures.

9. Media fragmentation, rising promotional costs and declining promotional returns.

10. Changing patterns of distribution and a significant shift in the balance of power between manufacturers and intermediaries.

11. Rapid changes in technology.

12. An increased emphasis upon environmental and 'green' issues.

FIGURE 5.1 *Changing environmental pressures*

are increasing. They also illustrate the point made in Chapters 1 and 2 that strategic marketing planning is an essentially iterative process. It is iterative for a number of reasons, the most significant of which being that, as the company's external environment changes, so opportunities and threats emerge and disappear only to re-emerge perhaps in a modified form at a later stage. Because of this, the marketing planner needs to recognize the fundamental necessity both for an environmental monitoring process that is capable of identifying in advance any possible opportunities and threats, and for a planning system and organizational structure that is capable of quite possibly radical change to reflect the environment so that the effects of threats are minimized and that opportunities are seized.

In essence, therefore, in formulating the marketing plan, the planner is concerned with matching the *capabilities of the organization* with the *demands of the environment*. In doing this, the planner is faced with a difficult problem, since what we typically refer to as *the environment* encapsulates a wide variety of influences. The difficulty lies, therefore, in coming to terms with this diversity in such a way that it contributes to effective decision-making, since it is this that has a direct influence upon performance.

This difficulty in coping with the environment can be viewed under two headings:

1. Understanding the *extent* to which the environment affects strategy

2. Understanding the ways in which environmental pressures can be *related* to the capabilities of the organization.

A possible danger that has been highlighted by several commentators is that of adopting a 'balance sheet' approach to environmental analysis – simply listing all possible environmental influences and then categorizing each as either an opportunity or a threat. If environmental analysis is limited to this alone, the strategist is left with far too broad and unsophisticated a picture of what really affects the organization. In addition, such an approach is likely to lead to the organization responding in a fragmented way rather than in a more integrated and strategic fashion.

This chapter therefore focuses on the various elements of the marketing environment with a view to illustrating the nature of their interaction and, subsequently, their effect on the organization. Against this background, we then move on to consider the ways in which an effective environmental monitoring process can best be developed and then, subsequently, how environmental forces are capable of determining the nature of the strategy pursued. We begin, however, by examining an approach to analysing the environment.

5.3   ANALYSING THE ENVIRONMENT

When the rate of change inside the company is exceeded by the rate of change outside the company, the end is near.
        (Jack Welch, former Chief Executive Officer, General Electric)

No organization exists in a vacuum. Marketing strategy must therefore develop out of a detailed understanding of the environment. Given this, the planner must:

■ Know *what* to look for

■ Know *how* to look

■ Understand *what* he or she sees

■ Develop the strategy and plan that takes account of this knowledge and understanding.

In analysing the environment, the majority of commentators argue for a stepwise approach. This involves an initial audit of general environmental influences, followed by a series of increasingly tightly-focused stages that

are designed to provide the planner with an understanding of the *key opportunities and threats* as a prelude to identifying the organization's *strategic position*. This process includes four principal stages:

1. The initial audit of the environment with a view to identifying the type of environment and how it is likely to change over the next few years.

2. An assessment of the organization's position within the environment and its ability to cope with environmental pressures. A detailed discussion of how this can be done appears in Chapter 7. In essence, however, this involves a combination of *strategic group analysis* in which competitors are mapped in terms of their similarities, dissimilarities, their capabilities and the strategies they follow, and *market share analysis* to highlight their relative degrees of market power.

3. The identification of emerging opportunities and threats and an assessment of the organization's strength to manage these effectively.

4. The preliminary identification of the marketing strategy.

At this point we will examine the first three stages of this stepwise approach; the fourth stage is discussed in Chapters 11 and 12. The first step in the process involves the *initial audit* of the environment with a view to identifying its current structure and how this is likely to change. The starting point for this involves the strategist in developing a list of those factors which are likely to have an impact on the organization and which will therefore need further analysis. In doing this, the purpose is to develop a detailed understanding of what environmental factors have influenced the organization in the past, and the degree to which any changes that are taking place are likely to increase or reduce in impact. Although quite obviously such a list has to be company-specific, it is possible to identify a broad framework to help with this audit. This framework, which is typically referred to as PEST (Political, Economic, Social and Technological) analysis, is illustrated in Figure 5.2.

Against this background, the strategist can then move to an assessment of the *nature of the environment*. In essence, this is concerned with answering three questions:

1. How uncertain is the environment?

2. What are the sources of this uncertainty?

3. How should this uncertainty be dealt with?

Levels of uncertainty are directly attributable to the extent to which environmental conditions are dynamic or complex. *Dynamism* is due largely to the rates and frequency of change, while *complexity* is the result either of the diversity of environmental influences, the amount of knowledge required to
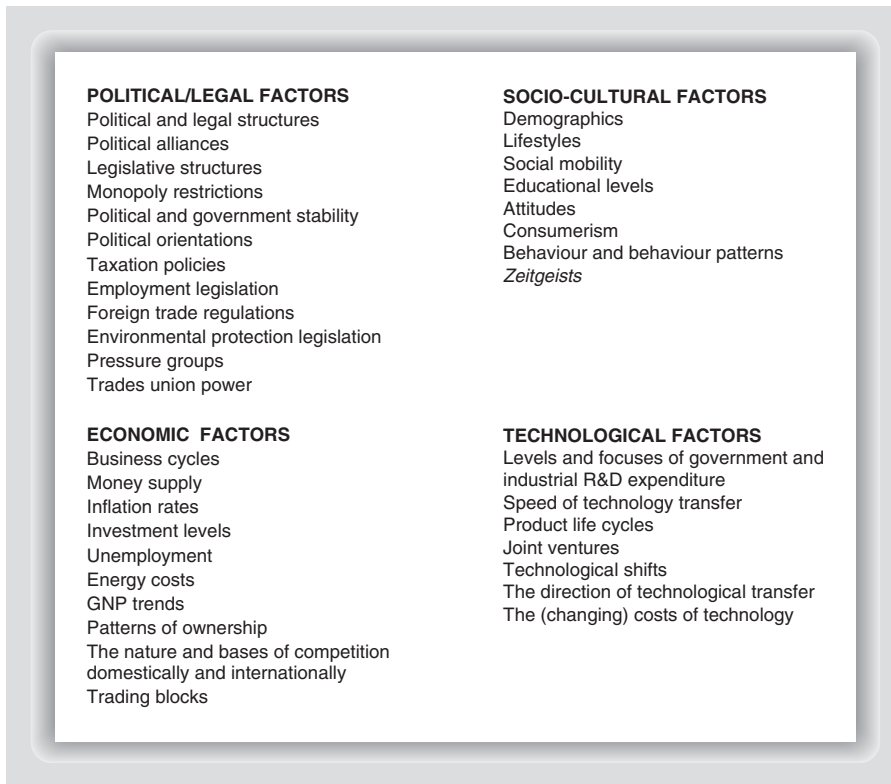
POLITICAL/LEGAL FACTORS
Political and legal structures
Political alliances
Legislative structures
Monopoly restrictions
Political and government stability
Political orientations
Taxation policies
Employment legislation
Foreign trade regulations
Environmental protection legislation
Pressure groups
Trades union power

SOCIO-CULTURAL FACTORS
Demographics
Lifestyles
Social mobility
Educational levels
Attitudes
Consumerism
Behaviour and behaviour patterns
Zeitgeists

ECONOMIC FACTORS
Business cycles
Money supply
Inflation rates
Investment levels
Unemployment
Energy costs
GNP trends
Patterns of ownership
The nature and bases of competition
domestically and internationally
Trading blocks

TECHNOLOGICAL FACTORS
Levels and focuses of government and
industrial R&D expenditure
Speed of technology transfer
Product life cycles
Joint ventures
Technological shifts
The direction of technological transfer
The (changing) costs of technology

FIGURE 5.2   *The PEST framework for environmental auditing*

cope with them, or the extent to which environmental factors are interconnected. The implications for environmental analysis of these different types of environmental condition are illustrated in Figure 5.3.

Environment types

The question of *how* to categorize environments has been discussed in some detail amongst others by Miles (1980, Chapter 9), who developed a framework for a comprehensive and systematic analysis of environment types. The model calls for a 'measurement' response by those performing the analysis and is based upon the answers to six questions:

1. How complex is the environment? (Complexity is a measurement of the number of different environmental forces which have an impact, or potential impact, upon the organization.)

2. How routine and standardized are organizational interactions with elements of the environment?

3. How interconnected and how remote, initially, are the significant environmental variables?

	Conditions		
	Simple/static	**Dynamic**	**Complex**
Aims	To achieve thorough (historical) understanding of the environment	To understand the future rather than simply relying on past experiences	The reduction of complexity Greater structural understanding
Methods	Analysis of past influences and their effect on organizational performance Identification of key forces Analysis of existing relationships	Managers' sensitivity to change Scenario planning Contingency planning Sensitivity planning	Specialist attention to elements of complexity Model-building
Dangers	The sudden emergence of unpredicted change Mechanistic organizational structures Lack of skills Focus on existing relationships Lack of willingness to accept that conditions are changing Stereo-typed responses	Management myopia Mechanistic organizational structures Lack of skills Inappropriate forecasting Failure to recognize significant new players	Unsuitable organizational structure or control systems Inappropriate reactions Inappropriate focuses Over-reaction

FIGURE 5.3 *Handling different environmental conditions (adapted from Johnson, Scholes and Whittington, 2008)*

4. How dynamic and how unpredictable are the changes taking place around the organization?

5. How receptive is management to the ways in which environmental pressures adversely affect the input and output processes of the organization?

6. How high is flexibility of choice and to what extent is the organization constrained from moving into new areas?

Using this checklist of questions, the strategist should then be able to establish the organization's environmental position on a number of continua:

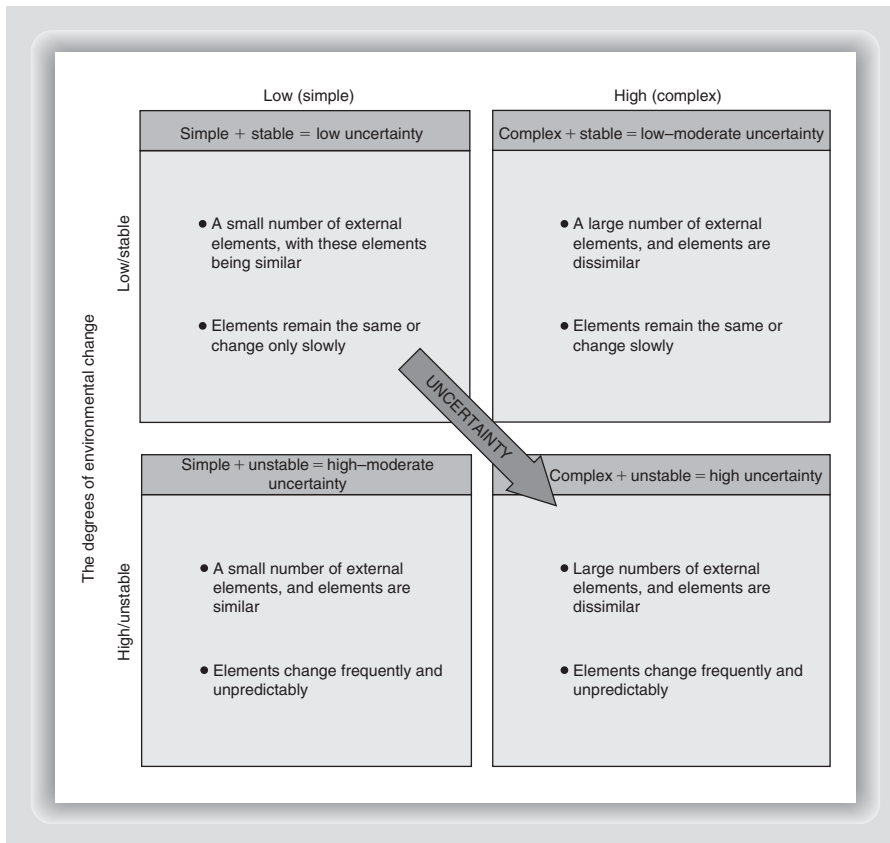|		
Simple	↔	Complex
Routine	↔	Non-routine
Unconnected	↔	Interconnected
Proximate	↔	Remote
Static	↔	Dynamic
Predictable	↔	Unpredictable
High input receptivity	↔	Low input receptivity
High output receptivity	↔	Low output receptivity
High domain choice flexibility	↔	Low domain choice flexibility

FIGURE 5.4   *Degrees of environmental complexity (adapted from Daft, 1998)*

Taken together, these elements can then be incorporated into the matrix shown in Figure 5.4.

In turn, changes taking place within the environment can be plotted as in Figure 5.5. Here, the two key dimensions are the immediacy of an event taking place and then its likely impact upon the organization.

The implications of environmental change

Undoubtedly one of the major problems faced by managers comes when the organization, having operated for some time in a largely predictable environment, is faced with having to come to terms with a far more complex, uncertain and possibly malevolent environment. Among those who have had to do this in recent years are the major clearing banks, which have been faced with a very different type of competition, initially from telephone banking and then, subsequently, from Internet banking. Equally, Hoover has had to come to terms with a very clever, fast-moving and unpredictable competitor in the form of Dyson. Elsewhere, BA was challenged initially by
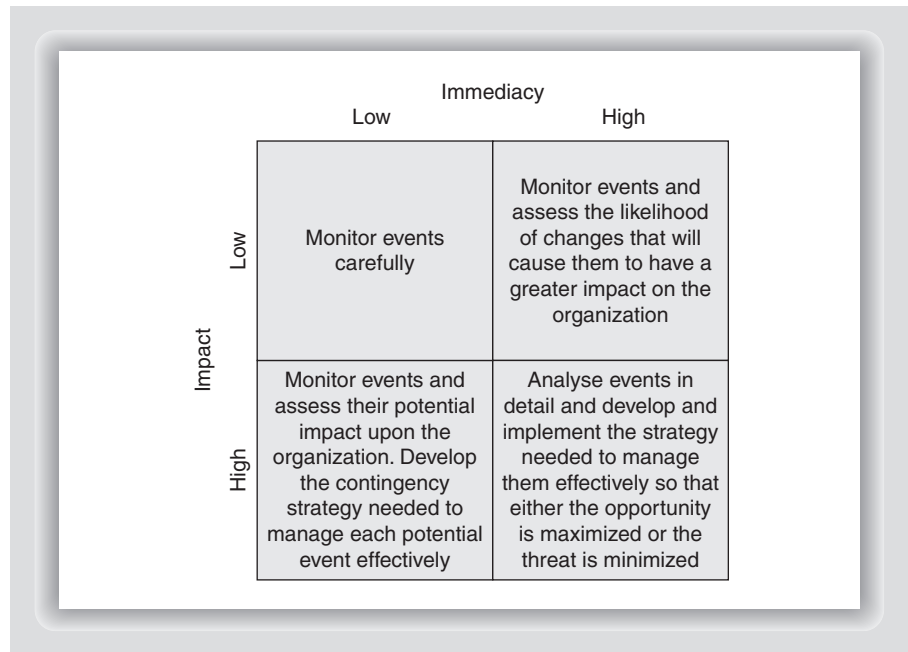
Immediacy

	Low	High
Impact: Low	Monitor events carefully	Monitor events and assess the likelihood of changes that will cause them to have a greater impact on the organization
Impact: High	Monitor events and assess their potential impact upon the organization. Develop the contingency strategy needed to manage each potential event effectively	Analyse events in detail and develop and implement the strategy needed to manage them effectively so that either the opportunity is maximized or the threat is minimized

FIGURE 5.5   *Issues of immediacy and impact*

Virgin and then by the low-cost airlines such as Ryanair, whilst the music industry has been faced with challenges for Internet music downloads.

The significance of changes such as these needs to be seen in terms of *how* the organization monitors the environment and, subsequently, *how* it *responds*. Quite obviously, what is appropriate to a static environment is not likely to be suited to either a dynamic or a complex environment.

Static, dynamic and complex environments

With regard to the question of how the organization monitors the environment, evidence suggests that, in *broadly static conditions*, straightforward environmental scanning is likely to be a useful and generally adequate process. In a *dynamic environment*, however, the organization is typically faced with major change in the areas of technology and markets, with the result that decisions can no longer be based upon the assumption that what broadly has happened in the past will continue in the future. As a consequence of this, the focus needs to be upon the future with a far greater degree of inspirational interpretation. Among the techniques that have been used to do this is Delphic forecasting (see Wills *et al*., 1972). The results are then used as the basis for building alternative scenarios.

This idea of alternative futures can then be used to identify the likely impact upon consumers, suppliers, competitors, government, the financial

institutions, their probable responses, and subsequently their impact upon the organization.

For organizations faced with a *complex* environment, many of the issues and problems to which reference has been made are exacerbated.

Regardless, however, of the degree of complexity in the environment, there appear to be certain common strands in the ways in which managers cope with their environments. The most significant of these is that managers develop over time what can loosely be referred to as the accepted wisdom of the industry and the workable solutions to the various situations that are likely to emerge. One consequence of this is that the major competitive threats to organizations often come from companies *outside* the industry which, on entering the market, adopt a strategy that falls outside this area of standardized expectation, allowing for the conventional wisdom of response to change to be challenged.

5.4   THE NATURE OF THE MARKETING ENVIRONMENT

The marketing environment has been defined in a variety of ways. One view, for example, has referred to it in terms of factors that are outside the system's control but which determine, in part at least, how the system performs. For our purposes, however, the definition that we will work with is that an organization's marketing environment is made up of those forces that lie outside the organization and which exert some degree of influence upon the ways in which marketing management develops relationship with the firm's target markets.

Within the environment there are two distinct components: the *micro-environment* and the *macro-environment*. These are illustrated in Figure 5.6.

The *micro-environment* is made up of those elements that are closest to the company and that exert the greatest and most direct influence over its ability to deal with its markets. This includes the organization itself, its suppliers, its distribution network, customers, competitors and the public at large. The *macro-environment* consists of the rather broader set of forces that have a bearing upon the company, including economic, demographic, technological, political, legal, social and cultural factors. Together, these elements of the environment combine to form what we can loosely refer to as the *non-controllable* elements of marketing, which in many ways act as a series of constraints on the parameters within which the marketing planner is required to operate.

In labelling these elements as non-controllable, the reader should recognize that, in some cases at least, the marketing planner may well adopt a highly proactive stance in an attempt to alter the nature and impact of the environment upon the organization – for example, by attempting a merger or takeover in order to minimize a competitive threat. Equally, a large organization may well lobby the government in order to have legislation
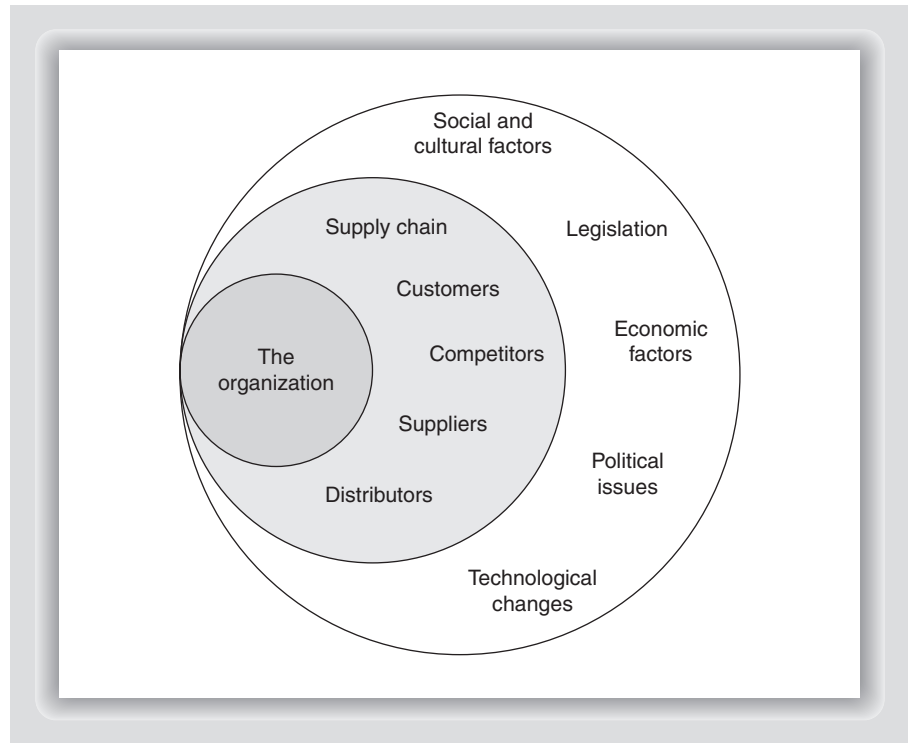
FIGURE 5.6 *The organization's marketing environment*

developed or changed so that the company benefits in some way. The car, foodstuffs, defence cigarette and brewing industries, for example, all have powerful lobby groups that attempt to exert a degree of influence over government to ensure that any legislation is beneficial (or at least not harmful) to their interests. In other cases, however, the organization may adopt a rather more reactive stance and simply view the environment as something that has to be lived with and responded to.

Regardless of which approach an organization adopts, it needs to be recognized that the environment is a significant determinant both of strategy and organizational performance, something which has been reflected in the work of a considerable number of writers, including Baker (1985, p. 85), who has described it as 'the ultimate constraint upon the firm's strategy'; Drucker (1969), who referred to the environment of the 1960s and 1970s as the 'age of discontinuity'; and Toffler (1970, p. 28) who, in looking ahead, referred to it as a time of 'future shock'. In making these comments, each author was giving recognition to the volatility and, indeed, the potential malevolence of environmental factors. As an example of this, the early 1970s witnessed an oil price crisis which, in turn, precipitated an economic upheaval throughout the world. This was reflected for some considerable time in higher levels of unemployment, high interest rates, the development

of new economic thinking and, perhaps most importantly, reduced levels of business confidence. More recently, of course, the bombing of the World Trade Center in September 2001 had major economic, political and social implications. More recently still we have again seen significant and very rapid changes in the price of oil, and a major credit crisis as well as more regionalized upsets such as Sars and Avian flu.

In the case of the oil crisis, although this was without doubt a significant environmental upset, its impact was obviously felt far more directly by some organizations than others. It should therefore be remembered that what is a key environmental issue for one organization is not necessarily a key environmental issue for another. For a multinational corporation, for example, the major areas of concern are likely to be government relations, spheres of influence and the various political complexions throughout the world. For a retailer, the more *directly* important environmental influences are likely to be customer tastes and behaviour, and interest rates, while for a manufacturer in the high-technology fields it is issues of technological development and speeds of obsolescence that are most important.

The question of the extent to which environmental change, particularly of something as significant as the oil crisis, can be anticipated by business organizations has been the subject of considerable discussion and, in the case of the oil crisis, has led to both a 'yes' and a 'no' answer. 'Yes' in the sense that the techniques of environmental analysis undoubtedly existed at the time, but 'no' in that few people were willing, or indeed able, to recognize that one economic era was in the process of coming to an end, that another was about to start, and that balances of power throughout the world were beginning to change in a number of significant ways.

Although a number of commentators have suggested that environmental change of this magnitude is so rare as to be seen almost as a one-off, other writers' views differ and suggest that it is simply the *scale* of the oil crisis that separates it from the more commonly experienced and less dramatic forms of environmental change. The lesson to be learned in either case is straightforward, in that it points to the need for companies to engage in careful, continuous and fundamental monitoring of the environment with a view to identifying *potential* threats before they become *actual* threats, and opportunities before they are missed. In the absence of this, the organization runs the risk of falling victim to what Handy (1994, pp. 7–8) refers to as the 'boiled frog syndrome', which is discussed in Illustration 5.1. This has in turn led to the idea of 'strategic windows', a concept that has been discussed by Abell and Hammond (1979, p. 63).

Strategic windows

The term *strategic window* is used to describe the fact that there are often only limited periods when the 'fit' between the 'key requirements' of a market

> ### Illustration 5.1   The parable of the boiled frog
>
> All organizations are faced with a series of environmental changes and challenges. The principal difference between the effective and the ineffective organization is how well it responds, something that was encapsulated several years ago in one of the most popular of management fables, the parable of the boiled frog. What is now referred to as 'the boiled frog syndrome' is based on the idea that, if you drop a frog into a pan of hot water, it leaps out. If, however, you put a frog into a pan of lukewarm water and turn the heat up very slowly, it sits there quite happily not noticing the change in the water's temperature. The frog, of course, eventually dies. The parallels with the management and development of any organization are – or should be – obvious. Faced with sudden and dramatic environmental change, the need for a response is obvious. Faced with a much slower pace of change, the pressures to respond are far less (this is the 'we are doing reasonably well and can think about doing something else at some time in the future' phenomenon), with the result that the organization becomes increasingly distant from the *real* demands of its customers and other stakeholders. Given this, think seriously about whether you are one of the frogs that is sitting quite happily in a pan of increasingly hot water. If so, why, what are the possible consequences and what, if anything, are you going to do about it?

and the particular competences of a firm competing in that market is at an optimum. Investment in a product line or market area has to be timed to coincide with periods in which a strategic window is open, i.e. where a close fit exists. Disinvestment should be considered if, during the course of the market's evolution, changes in market requirements outstrip the firm's capability to adapt itself to the new circumstances.

The strategic window concept can be useful to incumbent competitors as well as to would-be entrants into a market. For the former, it provides a way of relating future strategic moves to market evolution and of assessing how resources should be allocated to existing activities. For the latter, it provides a framework for diversification and new entry.

The consequences of failing to identify strategic windows can, of course, be significant and are typically manifested in terms of a loss of opportunity, market share or competitive advantage. This was illustrated by the Swiss watch industry in the 1970s and 1980s, when it failed to recognize the significance of new, low-price market segments, new quartz technology, and a new, low-cost and aggressive form of competition from Japan and, subsequently, Hong Kong. The net effect of this was that the Swiss saw their share of the world watch industry drop from 80 per cent in 1948 to just 13 per cent in 1985.

That they have subsequently fought back with the Swatch watch is, in one sense at least, incidental. Perhaps the more important lesson to be learned from their experience is that a different approach to environmental monitoring might well have led to the industry avoiding the traumas that it undoubtedly faced.

The new marketing environment

Among the legacies of the economic and social turbulence of the last 25 years has been the emergence of a new type of consumer and the development of a new type of competitive environment (refer to Chapters 6 and 7). Taken together, these changes have led to what is for many organizations a radically different and far more demanding marketing environment than has been the case in the past. The consequences of these changes have been felt in a variety of ways, but most obviously in terms of the need for a different approach to management. This is typically discussed in terms of the need for managers to be more creative, innovative, flexible, dynamic, forward-looking and willing to take risks. However, in making this comment and identifying the characteristics of a new approach, we run the risk of making a series of largely self-evident points, but then failing to develop the sort of culture in which these elements prosper.

Environmental uncertainty and its implications have been discussed by numerous commentators over the past few years, including Charles Handy (1994) in *The Empty Raincoat,* and Tom Peters (1992) who, in *Liberation Management*, referred to the extreme changes that some organizations now face as 'crazy days'. Crazy days, he argued, are increasingly being faced by managers, and call for responses which often fall outside the traditional, well-understood and well-rehearsed patterns of managerial behaviour. Often, he suggests, it is the case that, if an organization is to survive let alone prosper, managers need to pursue much more radical and truly innovative strategies than ever before. He refers to these new patterns of behaviour as 'crazy ways', going on to argue that crazy days demand crazy ways.

Although others have suggested that Peters perhaps goes too far in his ideas of how to respond, it can be argued that they provide a useful starting point or underpinning of thinking about how best to manage the marketing process. In essence, what Peters is arguing for is a move away from the traditional to the more radical. This post-modern approach has, in turn, been developed by a wide variety of other commentators (see, for example, Brown, 1995; Nilson, 1995; and Ridderstråle and Nordström, 2000, 2004), all of whom have argued in one way or another for more innovative responses and patterns of managerial thinking and behaviour.

This theme has also been developed by Hamel and Prahalad (1994) who, in *Competing for the Future*, encapsulate many of these ideas in terms of what they label 'the quest for competitiveness'. This quest, they suggest, typically involves one or more of three possible approaches: *restructuring, re-engineering* and *reinventing the industry and/or strategies*; these are discussed in Chapter 11. In many cases, however, they claim that, whilst many managers over the past few years have placed emphasis upon the first two of these, they have failed to recognize the real significance – and, indeed, the strategic necessity in environments that are changing rapidly and unpredictably – of the third.

The implications of this are significant, and highlight one of the two key themes of this book: first, that in common with many other parts of a business, the marketing process needs to be managed in a truly strategic fashion and, secondly, that there is an ever greater need for innovation. These changes also highlight the need for organizations to be far closer to their markets than has typically been the case in the past and to have a far more detailed understanding of market dynamics. Without this, it is almost inevitable that any marketing programme will lack focus.

Responding to the changing market by coming to terms with the future

One of the principal themes that we pursue throughout this book is that the marketing environment is changing ever more dramatically and, for many organizations, ever more unpredictably. Faced with this, the marketing planner can take one of three approaches:

1. To ignore what is happening and accept the consequences of strategic drift and wear-out

2. To respond quickly or slowly, but largely reactively

3. To try to predict the nature of the changes and then manage them proactively.

The implications of the first of these in fast-moving markets are in most cases far too significant for this to be a realistic option for the majority of organizations, and so it is really only the second and third with which we need to be concerned here. In deciding whether to respond quickly or slowly, the planner needs to think about the opportunities or threats posed by the changes taking place, the time for which any window of opportunity is likely to be open, and the organization's ability to respond. Thus, the third option is in many ways the most desirable, but is typically dependent upon the quality of the environmental monitoring system that exists and the planner's ability to identify *how* to respond.

Although this third option is potentially the most difficult, it highlights a key issue for the marketing strategist: recognizing that an important part of planning and strategy is about the future; how can the organization get to the future first? It is the failure to do this and for external change to move ahead faster than management learning that typically creates significant problems for the marketing planner.

Recognizing this allows us to identify five types of manager:

1. Those who make it happen

2. Those who think they make it happen

3. Those who watch it happen

4. Those who wonder what happened

5. Those who fail to realize that anything has happened.

The likelihood of the last two of these occurring increases dramatically when the organization has a poorly-developed or non-existent marketing information system, and can lead to managers suffering from psychological recoil when they finally do recognize the nature and significance of changes taking place. In these circumstances, the marketing planner can then either continue to deny the nature and significance of market changes or respond to these changes.

5.5 THE EVOLUTION OF ENVIRONMENTAL ANALYSIS

Recognition of the potential significance of environmental change high-lights the need for a certain type of organizational structure and culture, which is then reflected both in a balanced portfolio of products and in an adaptive management style supported by a well-developed intelligence and information monitoring system. Without this, the likelihood of the firm being taken unawares by environmental changes of one sort or another increases dramatically. Against the background of these comments, the need for environmental analysis would appear self-evident. All too often, however, firms appear to pay only lip service to such need. In commenting on this, Diffenbach (1983) has identified three distinct stages in the evolution of corporate environmental analysis:

1. An *appreciation stage*, typically resulting from the emergence of books and articles that argue the case for looking beyond the short-term and for considering the wider implications of the economic, technological, social and political factors that make up the business environment.

2. An *analysis stage*, which involves finding reliable sources of environmental data, compiling and examining the data to discuss trends, developments and key relationships. It also includes monitoring developments and anticipating the future. It was the emergence of this thinking which led to the appearance in the 1960s and 1970s of numerous books on environmental scanning, Delphic analysis and environmental forecasting (see, for example, Wills *et al.*, 1972).

3. The *application stage*, in which very real attempts are made to monitor the environment, assess the implications for change and incorporate staff evaluations into strategy and plans.

Assuming therefore that a firm intends to develop an effective system for environmental analysis, there is a need first to identify those dimensions that are likely to have the greatest impact upon the organization and, secondly

to establish a mechanism whereby each of these elements is monitored on a regular basis. For most companies these elements are contained within the PEST analytical framework referred to earlier. Although in practice other factors can be added to this list, we will for convenience use this framework as a prelude to illustrating how environmental factors influence, and occasionally dictate, strategy. However, before examining these various dimensions, it is worth making brief reference to the ways in which organizations scan their environments.

In essence, there are three approaches to scanning, with these being characterized by an increasing degree of structure, systemization, sophistication and resource intensity.

1. *Irregular systems*, which predominate in companies with a poorly-developed planning culture and in which the focus is upon *responding* to environmentall-generated crises. The net effect of this is that emphasis is simply placed upon finding solutions to short-term problems, with little real attention being paid to identifying and assessing the likely impact of future environmental changes.

2. *Periodic models*, which represent a general development of the irregular system and which are more systematic, resource intensive and sophisticated. The environment is reviewed regularly and a longer-term perspective is developed.

3. *Continuous models*, which represent yet a further development and involve focusing upon the business environment generally and upon the long-term as opposed to short-term and specific issues.

The argument for continuous environmental monitoring in order to identify strategic issues and market signals in advance of their impact upon the company is a strong one, and has led Brownlie (1987, pp. 100–5) to identify the three basic premises upon which continuous environmental analysis is based:

1. The determinants of success are dictated by the business environment

2. The firm's response to environmental change therefore represents a fundamental strategic choice

3. A knowledge of the business environment must precede the acquisition of any degree of control over it.

Acknowledging the validity of these three assumptions leads to a recognition that effective management cannot take place in an information vacuum, or indeed in circumstances in which information is at best partial and poorly-structured. There is therefore an obvious need for the organization to develop an effective information system that *collects, analyses* and then *disseminates* information both from within and outside the company.

There are, however, problems that are commonly associated with the first of these – information collection and the development of a worthwhile database. Brownlie identifies these as being that all too often the information is:

- Poorly structured

- Available only on an irregular basis

- Often provided by unofficial sources

- Qualitative in nature

- Ambiguous in its definitions

- Opinion based

- Poorly quantified

- Based on an insecure methodology

- Likely to change.

Because of problems such as these, the need to collect and analyse environmental information in a well-structured and usable fashion is essential, and it is this that frameworks such as PEST are designed to achieve. It must be emphasized, however, that the organization should avoid focusing just upon the immediate *task environment*, since all too frequently history has demonstrated that the most significant threats faced by companies often come from firms outside the task environment. We have already pointed to the example of the Swiss watch industry, which was significantly damaged by the introduction of microchips and digital technology on the part of firms that the Swiss did not see as competitors. Equally, companies in markets as prosaic as carbon paper were decimated by photocopying technology, while in the same period the British motorcycle manufacturers of the 1960s, seeing their competitors as being one another, were taken by surprise by the Japanese. In making these comments we are therefore arguing for a *breadth* of perspective within the general structure of PEST analysis.

However, although the environment exerts a significant and obvious influence upon the organization, it should not necessarily be seen as the most direct determinant of strategy. Porter (1980, Chapter 1), for example, has argued that industry structure is a more important factor than environmental conditions, since it typically exerts a strong influence in determining the competitive rules of the game, as well as the strategies potentially available to the firm. Recognizing this, the key issue for the planner lies in developing the ability of the firm to deal with them.

However, before going on to consider some of the ways in which industry structure influences strategy, we need to examine the various dimensions of the political, economic, social and technological environments. It is this that provides the basis of the next section.

5.6 THE POLITICAL, ECONOMIC, SOCIAL AND TECHNOLOGICAL ENVIRONMENTS

At the beginning of this chapter we suggested that effective marketing planning is based on two important analytical ingredients. First, market opportunity must be analysed and, secondly, the company's ability to take advantage of these opportunities and cope with threats must be assessed.

Under the first heading, there are four basic building blocks:

1. Customers must be analysed to determine how the market can be segmented and what the requirements of each segment are

2. Competitors must be identified and their individual strategies understood

3. Environmental trends (social, economic, political, technological) affecting the market must be isolated and forecasted

4. Market characteristics in terms of the evolution of supply and demand and their interaction must be understood.

It is point 3 to which we now turn our attention. We do this by examining each of the elements of the PEST framework in turn, and then try to bring them together in Illustration 5.3 (see p. 178), where we make reference to what we term world-changing megatrends.

The political (and legal) environment

Marketing decisions are typically affected in a variety of ways by developments in the political and legal environments. This part of the environment is composed of laws, pressure groups and government agencies, all of which exert some sort of influence and constraint on organizations and individuals in society.

With regard to the legislative framework, the starting point involves recognizing that the amount of legislation affecting business has increased steadily over the past two decades. This legislation has been designed to achieve a number of purposes, including:

■ Protecting companies from each other so that the size and power of one organization to damage another is limited

■ Protecting consumers from unfair business practice by ensuring that certain safety standards are met, that advertising is honest, and that generally companies are not able to take advantage of the possible ignorance, naivety and gullibility of consumers

■ Protecting society at large from irresponsible business behaviour.

It is important therefore that the marketing planner is aware not only of the current legislative framework, but also of the ways in which it is likely to develop and how, by means of industry pressure groups and lobbying of parliament, the direction of legislation might possibly be influenced so that it benefits the company. At a broader level, the strategist should also be familiar with the way in which legislation in other countries differs, and how this too might provide opportunities and constraints. The Scandinavian countries, for example, have developed a legislative framework to protect consumers that is far more restrictive than is generally the case elsewhere in Europe. Norway, for example, has banned many forms of sales promotion, such as trading stamps, contests and premiums, as being inappropriate and unfair methods for sellers to use in the promotion of their products. Elsewhere, food companies in India require government approval to launch a new brand if it will simply duplicate what is already on offer in the market, while in the Philippines food manufacturers are obliged to offer low-price variations of their brands so that low-income groups are not disadvantaged.

Although legislation such as this tends to be country-specific, examples such as these are potentially useful in that they highlight the need for marketing managers to be aware not just of the situation in their immediate markets, but also of how legislation might develop in order to restrict marketing practice. In a broader sense, marketing planners also need to monitor how public interest groups are likely to develop and, subsequently, influence marketing practice. In commenting on this in the context of American pressure groups, Salancik and Upah (1978) have suggested:

> *There is some evidence that the consumer may not be King, nor even Queen. The consumer is but a voice, one among many. Consider how General Motors makes its cars today. Vital features of the motor are designed by the United States government; the exhaust system is redesigned by certain state governments; the production materials used are dictated by suppliers who control scarce material resources. For other products, other groups and organizations may get involved. Thus, insurance companies directly or indirectly affect the design of smoke detectors; scientific groups affect the design of spray products by condemning aerosols; minority activist groups affect the design of dolls by requesting representative figures. Legal departments also can be expected to increase their importance in firms, affecting not only product design and promotion but also marketing strategies. At a minimum, marketing managers will spend less time with their research departments asking 'What does the consumer want?' and more and more time with their production and legal people asking 'What can the consumer have?'*

In the light of comments such as these, the need for careful and continual monitoring of the political and legal environment should be obvious, since at the heart of all such analysis is the simple recognition of the idea of political risk.

The economic and physical environments

Within the majority of small- and medium-sized enterprises (SMEs), the economic environment is typically seen as a constraint, since the ability of a company to exert any sort of influence on this element of the environment is, to all intents and purposes, negligible. As a consequence, it is argued, firms are typically put into the position of responding to the state of the economy. Having said this, larger companies, and particularly the multinationals (MNCs), are perhaps able to view the economic environment in a rather different way since they are often able to shift investment and marketing patterns from one market to another and from one part of the world to another in order to capitalize most fully on the global opportunities that exist. For a purely domestic operator, however, the ability to do this is generally nonexistent. For both types of company there is still a need to understand *how* the economic environment is likely to affect performance, a need which received a significant boost in 2008–2009 in the wake of the financial crisis, when parallels were being drawn between that period and the Great Depression of the 1930s. More specifically, however, the sorts of changes that are currently taking place in the economic environment can be identified as:

1. A significant shift in the balance of power between the major economies, with countries such as China and India both exerting an ever greater influence

2. A higher degree of economic inter-connection

3. Very high and rising levels of debt within many countries within the developed world

4. High levels of Third World debt

5. Rapidly fluctuating commodity prices

6. Very different patterns of consumer expenditure.

The significance of changes such as these should not be looked at in isolation, but should be viewed instead against the background of changes in the *political/economic balances of power* (e.g. the rise and then the relative decline of Japan over the past 40 years, the opportunities today in Central and Eastern Europe, and the economic development of China and India), and major changes in the *physical environment*.

Concern with the physical environment has increased dramatically over the past few years, with the origins being traceable to the publication in

the 1960s of Rachael Carson's book *Silent Spring* (1963). In this, Carson drew attention to the possibly irrevocable damage being done to the planet and the possibility that we would exhaust the world's resources. This concern was echoed in the coining of the phrase 'eco-catastrophe' and reflected subsequently in the formation of powerful lobby groups such as Friends of the Earth and Greenpeace, which have had an impact upon business practice. The five major areas of concern expressed by pressure groups such as these are:

1. An impending shortage of raw materials

2. The increasing costs of energy

3. Increasing levels and consequences of pollution

4. An increasing need for governments to become involved in the *management* of natural resources

5. The need for management teams to take a very much more informed view of sustainable development, to which we must add the causes and consequences of global warming.

The social, cultural and demographic environments

It should be apparent from what has been said so far that a broad perspective needs to be adopted in looking at the economic environment. From the viewpoint of the marketing planner, analysis of short-term and long-term economic patterns is of vital importance. In doing this, arguably the most useful and indeed logical starting point is that of demography, since not only is demographic change readily identifiable, but it is the size, structure and trends of a population that ultimately exert the greatest influence on demand. There are several reasons for this, the two most significant of which are, first, that there is a strong relationship between population and economic growth and, secondly, that it is the absolute size of the population that acts as the boundary condition determining potential or primary demand. A detailed understanding of the size, structure, composition and trends of the population is therefore of fundamental importance to the marketing planner. It is consequently fortunate that, in the majority of developed countries, information of this sort is generally readily available and provides a firm foundation for forecasting.

At the same time, a variety of other equally important and far-reaching changes are currently taking place, including:

1. *The growth in the number of one-person households*. The size of this SSWD group (single, separated, widowed, divorced) has grown dramatically over the past few years, with 64 per cent of the UK's 24.4 million households consisting of just one or two people.

Amongst the factors that have contributed to this are young adults leaving home earlier, later marriage, a rise in the divorce rate, a generally greater degree of social and geographic mobility, and higher income levels that give people the freedom to live alone if they wish to do so. The implications for marketing of changes such as these have already proved significant in a variety of ways and have been reflected in an increase in demand for more starter homes, smaller appliances, food that can be purchased in smaller portions, and a greater emphasis upon convenience products generally. (At this stage, the reader might usefully turn to the Appendix of Chapter 6, where some of the drivers of consumer change are discussed.)

2. *A rise in the number of two-person cohabitant households*. It has been suggested by several sociologists that cohabitation is becoming increasingly like the first stage of marriage, with more people of the opposite sex sharing a house. At the same time, the number of households with two or more people of the same sex sharing has also increased.

3. *An increase in the number of group households*. These are households with three or more people of the same or opposite sex sharing expenses by living together, particularly in the larger cities. These look set to increase yet further. The needs of these non-family households differ in a variety of ways from those of the more conventional family household, which in the past has typically provided the focus for marketing attention. By virtue of their increasing importance, non-family households are likely to require ever more different strategies over the next few years if full advantage of the opportunities they offer is to be realized.

4. *A much greater degree of social mobility*.

At the same time a variety of other significant demographic shifts are taking place throughout the world, all of which need to be reflected in the planning process. These include:

1. *An explosion in the world's population*, with much of this growth being concentrated in those nations which, by virtue of low standards of living and economic development, can least afford it.

2. *A slowdown in birth rates* in many of the developed nations. Many families today, for example, are opting for just one child and this has had significant implications for a variety of companies. Johnson & Johnson, for example, responded to the declining birth rate by very successfully repositioning its baby oil, baby powder and baby shampoo in such a way that the products also appealed to young female adults. Similarly, cosmetics companies have placed a far

greater emphasis on products for the over-50s. The implications of this slowdown in the birth rate are illustrated perhaps most dramatically in countries such as Japan in which the ratio of over-50s to the under-16s is greater than in any other nation.

3. *An ageing population*, as advances in medical care allow people to live longer. One result of this trend, which has in turn been exacerbated by the slowdown in the birth rate, has been an increase in the number of empty nesters (see the section on the family life cycle on pages 352–4) who have substantial sums of discretionary income and high expectations (see Illustration 5.2).

4. *Changing family structures* as a result of:
   - Later marriage
   - Fewer children
   - Increased divorce rates
   - More working wives
   - An increase in the number of career women.

5. *Higher levels of education* and an increasing number of families in what has traditionally been seen as the middle class.

6. *Geographical shifts* in population and, in Britain at least, the emergence of a North–South divide characterized by radically different levels of economic activity and employment. In parallel with

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Illustration 5.2   Disney and the Silver Yen

The implications of the increasingly skewed demographic profiles of North America, much of Western Europe and Japan have had significant implications for large numbers of organizations. Kellogg's Optovita brand, for example, was specifically targeted at the growing over 50s segment whilst companies such as Saga have focused almost entirely on this market.

A similar recognition of the value of the 'grey' market was at the heart of Disney's revised thinking in Japan in 2008. Faced with a significant decline in the country's birth rate, Disney began focusing upon a previously largely ignored demographic group, the over-60s. The company recognized that the largest group of customers having both the money and the time is now mostly retired. To attract this part of society, which it labelled 'the Silver Yen', the company began offering a cut-price season ticket and made older people Tokyo Disneyland's core target.

This move, which was unprecedented throughout the Disney empire, was in many ways a simple recognition of a market reality that many others had previously talked about, but failed to respond to effectively.

A slightly more unusual example of a revised market focus is that of Pascha, Germany's largest brothel, which offers a 50 per cent afternoon discount scheme for those over 66 and reduced entry prices to the establishment's night club at 9.00 pm.

this, there has been the urbanization of society, with 33 per cent of the population now living in just 3 per cent of the UK land area.

7. *A growth in the number of people willing to commute long distances to work*, and an upsurge in the opportunities for telecommuting whereby people can work from home and interact with colleagues via the Internet.

The net effect of changes such as these has been significant, and is continuing to prove so, with the marketing strategies of nearly all companies being affected in one way or another. At their most fundamental, these changes have led to a shift from a small number of mass markets to an infinitely larger number of micromarkets differentiated by age, sex, lifestyle, education and so on. Each of these groups differs in terms of its preferences and characteristics and, as a consequence, requires different, more flexible and more precise approaches to marketing that no longer take for granted the long-established assumptions and conventions of marketing practice. The implications of these trends are therefore of considerable significance and, from the viewpoint of the strategist, have the advantage of being both reliable and largely predictable, at least in the short- and medium-term. There is thus no excuse either for being taken unawares by them or for ignoring them.

Social and cultural change: an overview

Taken together, the changes that we have pointed to in this section can be seen as fundamental, and have been described in various ways. The media theorist Marshall MacLuhan (1964), for example, labelled it the Age of the Global Village. Drucker (1969) referred to it as the Age of Discontinuity; Toffler (1970) as the Age of Future Shock; Galbraith (1977) as the Age of Uncertainty; and Albrecht (1979) as the Age of Anxiety.

Although each of these was commenting some years ago, their thinking is still in many ways valid. However, for us the implications of much of what has been said is that we are now living in the Age of Consequences.

The technological environment

The fourth and final strand of the environment considered here is that of technology. Seen by many people as the single most dramatic force shaping our lives, technological advance needs to be seen as a force for 'creative destruction' in that the development of new products or concepts has an often-fatal knockout effect on an existing product. The creation of the xerography photocopying process, for example, destroyed the market for carbon paper, while the development of cars damaged the demand for railways. The implications for the existing industry are often straightforward: change or die. The significance of technological change does, however, need to be seen not just at the corporate or industry level, but also at the

national level, since an economy's growth rate is directly influenced by the level of technological advance.

Technology does, therefore, provide both opportunities and threats, some of which are direct while others are far less direct in their impact. As an example of this, the development of the contraceptive pill led to smaller families, an increase in the number of working wives, higher levels of discretionary income, and subsequently to a greater emphasis on holidays, consumer durables, and so on. Recognizing then that the impact of technology is to all intents inevitable, the areas to which Kotler (1988, pp. 154–6) suggests the marketing planner should pay attention include:

1. *The accelerating pace of technological change*. In his book *Future Shock*, Toffler (1970) makes reference to the accelerative thrust in the invention, exploitation, diffusion and acceptance of new technologies. An ever greater number of ideas are being developed, and the time period between their development and implementation is shortening. This theme was developed further by Toffler (1980) in *The Third Wave*, in which he forecast the rapid emergence and acceptance of telecommuting (the electronic cottage) with direct implications for such things as family relationships, home entertainment and, less directly, levels of car exhaust pollution.

2. *Unlimited innovational opportunities*, with major advances being made in the areas of solid-state electronics, robotics, material sciences and biotechnology.

3. *Higher research and development budgets*, particularly in the USA, northern Europe and Japan. One implication of this is that organizations are likely to be forced into the position of spending ever greater amounts on R&D simply to stay still.

4. *A concentration of effort in some industries on minor product improvements* that are essentially defensive, rather than on the riskier and more offensive major product advances.

5. *A greater emphasis upon the regulation of technological change* in order to minimize the undesirable effects of some new products upon society. Safety and health regulations are most evident in their application in the pharmaceutical, foodstuffs and car industries, although across the entire spectrum of industry far more emphasis today is being given to the idea of technological assessment as a prelude to products being launched commercially.

A broadly similar view of the major changes taking place within the environment appears in Illustration 5.3, which highlights what have been termed 'world-changing megatrends'. From the viewpoint of marketing, the implications of each of these areas are potentially significant, and argues

Illustration 5.3   World-changing megatrends

It should be apparent from what has been said so far that the marketing planner is faced with an increasingly volatile – and malevolent – environment. However, underpinning this is a number of what might be termed 'megatrends' that have a long-term and, in many cases, fundamental effect upon the pattern, structure and practices of business. These include:

1. The explosive and accelerating power of information and communication technologies

2. The globalization of markets, patterns of competition and innovation

3. The fundamental shifts from a world economy based on manufacturing and the exploitation of natural resources to one based on knowledge, information, innovation and adding value

4. The accelerated decoupling of the 'real' global economy from the 'virtual' economy of financial transactions

5. Geographic rebalancing and the emergence of a new world economic order

6. The twilight of government

7. Sector convergence

8. The emergence of unprecedented new forms of business organization, both within and between firms

9. A shift in the economic 'centre of gravity' of the business world from large multinationals to smaller, nimbler and more entrepreneurial companies

10. The increase in the social, political and commercial significance of environmental considerations

11. An exponential increase in the velocity, complexity and unpredictability of change.

Source: Lewis (2005).

the case for careful technological monitoring in order to ensure that emerging opportunities are not ignored or missed. This, in turn, should lead to more market-oriented, rather than product-oriented, research and to a generally greater awareness of the negative aspects of any innovation.

5.7   COMING TO TERMS WITH INDUSTRY AND MARKET BREAKPOINTS

A fundamental element of any competitive marketing strategy should be the anticipation – or precipitation – of major environmental or structural

change. Sometimes referred to as *industry breakpoints*, the consequences of major change are seen in a variety of ways, but most obviously in terms of how a previously successful strategy is made obsolete. An understanding of how breakpoints work and how they might best be managed is therefore an essential part of strategic marketing.

In discussing industry breakpoints, Strebel (1996, p. 13) defines them as:

> *a new offering to the market that is so superior in terms of customer value and delivered cost that it disrupts the rules of the competitive game: a new business system is required to deliver it. The new offering typically causes a sharp shift in the industry's growth rate while the competitive response to the new business system results in a dramatic realignment of market shares.*

The other way in which to think about breakpoints is in terms of the way in which once a breakpoint has been created, the existing players need either to respond, and possibly to respond dramatically, or recognize the often significantly negative implications upon their position and performance in the marketplace.

There are numerous examples of industries in which the phenomenon has been experienced (think, for example, about the implications of the Internet for both the holiday industry and the book market; the effects of the low-cost airlines upon the traditional players; the impact upon Nestlé, Mars and Unilever of the launch of Häagen–Dazs; and Eastman Kodak's need to come to terms with a disruptive breakpoint in the form of digital photography) although in many instances it appears that managers have learned little from the lessons of other markets in which traumatic change has already taken place. However, given the seemingly ever greater pace of competition, shorter product, market and brand life cycles, and the consequently more intensive search for competitive advantage, it is almost inevitable that at some stage a majority of managers will be faced with the problems that breakpoints create.

A breakpoint on a slightly smaller scale was illustrated in 2002/2003 by the popularity of the Atkins Diet. The high-protein regime that the diet demands was reflected in significant shifts in demand for food products, with sales of meat increasing substantially and sales of carbohydrates such as bread and pasta falling.

According to Strebel (1996, p. 13), there are two basic types of breakpoint:

1. *Divergent breakpoints*, which are associated with sharply increasing variety in the competitive offerings and consequently higher value for the customer

2. *Convergent breakpoints*, which are the result of improvements in the systems and processes used to deliver the offerings, with these then being reflected in lower delivered costs.
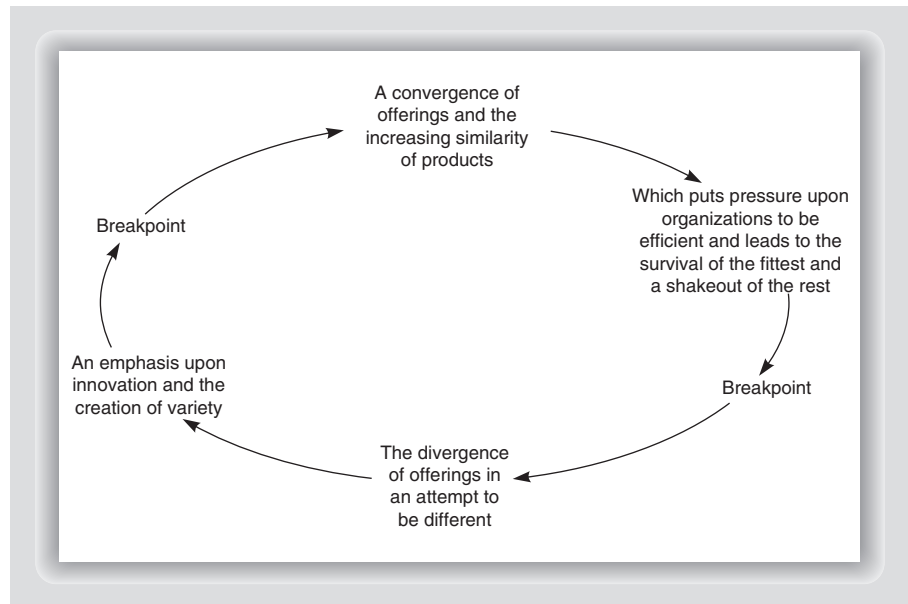
FIGURE 5.7 *The evolutionary cycle of competitive behaviour (adapted from Strebel, 1996)*

These are illustrated in Figure 5.7. With regard to the specific causes of breakpoints, it appears that they can be created by a variety of factors, including:

- Technological breakthroughs that provide the innovative organization with a major competitive advantage but, in turn, put competitors at a disadvantage

- The economic cycle, which, in a downturn, forces a radical rethink of the product and how it is to be marketed

- A new source of supply that offers scope for major reductions in cost

- Changes in government policy

- Shifts in customer values and/or expectations

- The identification by one company of new business opportunities, with the result that there is a divergence in competitors' responses and behaviour as they try to work out how best to exploit these opportunities

- Shifts within the distribution network that lead to changes in the balance of power between manufacturers and retailers, and very different sets of expectations

- New entrants to the market who bring with them different sets of skills and expectations, as well as a different perspective

- Declining returns, which force a radical rethink of how the company is operating and how it should develop in the future.

Given the significance of breakpoints, it is obviously essential that, wherever possible, the marketing planner identifies when breakpoints are most likely to occur and the form they will take. In the absence of this the organization will be forced into a reactively responsive mode. However, it can be argued that a majority of managers are particularly badly-equipped to identify breakpoints, especially in organizations with a closed culture, since their experience is largely irrelevant in new markets and new business systems. As an example of this, the established players in the computer industry focused much of their effort upon their existing products, markets and technologies, and had little cause or incentive to look at a redefinition of the product and market in the way that Apple did.

Nevertheless, planners need to come to terms with the dynamics of their industry and, in particular, with the sorts of pressures that we referred to earlier and which, sooner or later, lead to breakpoints occurring. In so far as a framework for this can be identified, it stems from the way in which there is a tendency for the competitive cycle to fluctuate between *divergence* (variety creation) and *convergence* (the survival of the fittest).

Faced with what, on the face of it, appears to be ever more rapid environmental change, marketing planners need to address a series of issues. Amongst the most prominent of these are:

- How to best balance short-run and long-run goals and actions

- How to become more firmly market focused and customer-driven

- How to manage customers more effectively and, in particular, ever higher expectations and lower levels of loyalty

- How to segment markets more creatively and strategically

- How best to achieve leadership in selected market segments

- How best to add value and differentiate the company's offer

- How to price in order to gain competitive advantage

- How to develop an effective distribution strategy

- How to deal most effectively with new technologies

- How to cope with shifting market boundaries and the globalization of markets

- How to improve the marketing information, planning and control systems.

5.8   COMING TO TERMS WITH THE VERY DIFFERENT FUTURE: THE IMPLICATIONS FOR MARKETING PLANNING

Predicting the future is the easy part. It's knowing what to do with it that counts.

(Faith Popcorn, 2001)

Given the nature of our comments so far, it should be apparent that the marketing planner must be concerned with the future. A fundamental consideration for many firms is therefore the question of how the organization can get to the future before its competitors. In discussing this, and how, by getting to the future first, organizations can create a possibly significant competitive advantage, Hamel and Prahalad (1994) suggest that: 'Companies that create the future are rebels. They break the rules. They are filled with people who take the other side of an issue just to spark a debate.'

They go on to suggest that, because so many markets are now dramatically more competitive than in the past, the traditional idea of being better, faster and smarter (which has led to the three words running together in the form of the management mantra 'betterfastersmarter') is no longer enough. Instead, there is the need for managers to recognize the fundamental importance of innovation and creativity being in many markets the only truly sustainable forms of competitive advantage. However, if this is to be achieved, run-of-the-mill large companies need to take on many of the mindsets of smaller organizations that are characterized by a far greater degree of flexibility and speed of response. It was this pattern of thinking and the difficulties of achieving it that led Kanter (1989) to refer to the idea of getting elephants to dance. In the absence of this, managers face the danger of simply drifting into the future. In order to avoid this, Hamel and Prahalad (1994) argue that managers need to recognize the importance of three rules:

1. *Step off the corporate treadmill*. To do this, managers need to avoid an over-preoccupation with day-to-day issues and to focus instead upon the smaller number of issues that are *really* important and will contribute to competitive advantage.

2. *Compete for industry foresight and learn to forget*. This involves spending time identifying how the market will or can be encouraged to move and then quite deliberately forgetting some of the traditional rules of competition and patterns of behaviour.

3. *Develop the (new) strategic architecture*, and concentrate upon leveraging and stretching the strategy in such a way that far greater use is made of the organization's marketing assets.

In coming to terms with these areas, the marketing planner needs to understand which of the factors that are typically taken for granted (the

conventional wisdoms), both within the organization and the market as a whole, can either be questioned or eliminated. The planner also needs to identify the two or three strategic actions which, if taken, would make a real difference to the organization's performance in the marketplace.

Looking to the future

In many organizations there is a temptation to focus upon the short-term. There are several obvious explanations for this, the most obvious of which stems from the (greater) feeling of security that managers derive from concentrating upon the comfort zone of the areas and developments that are essentially predictable. A more fundamental explanation, however, emerged from a survey in the *Asian Wall Street Journal*. The study, which covered large firms and multinational corporations, illustrated the extent to which many senior managers are forced to demonstrate higher and more immediate short-term results than in the past. The implications for strategic marketing planning are significant, since strategic planners have little incentive to think and act long-term if they know that they will be evaluated largely on the basis of short-term gains and results. The sorts of trade-offs that emerge from this have, in turn, been heightened as the pace of change within the environment, and the need to manage ambiguity, complexity and paradox, has increased.

Nevertheless, the strategic marketing planner must, of necessity, have some view of the longer-term and of the ways in which markets are likely to move. In discussing this, Doyle (2002) identified ten major trends within the environment:

1. The move towards what he termed the *fashionization of markets*, in which an ever greater number of products and markets are subject to rapid obsolescence and unpredictable and fickle demand

2. The *fragmentation* of previously homogeneous markets and the emergence of micro-markets

3. The *ever higher expectations* of customers

4. The greater pace of *technological change*

5. *Higher levels of competition*

6. The *globalization* of markets and business

7. Expectations of *higher service*

8. The *commoditization* of markets

9. The *erosion of previously strong and dominant brands*

10. A series of new and/or greater governmental, political, economic and social *constraints*.

Although the list is by no means exhaustive (it fails, for example, to come to terms with the detail of a series of major social and attitudinal changes) and, in a number of ways, focuses upon the broadly obvious in that much of what he suggested is simply a continuation of what exists currently, it does provide an initial framework for thinking about the future.

A somewhat different approach has been taken by Fifield (1998), who has focused upon tomorrow's customer. He suggests that this customer will not simply be a replication of the customer of the past, but will instead be characterized by a series of traits that include being:

■ Inner-driven and less susceptible to fashion and fads

■ Multi-individualistic and multi-faceted

■ Interconnected, with a far stronger awareness of different facets of their lives

■ Pleasure seeking

■ Deconstructed, in that they will view work, family and society in a very different way than in the past

■ Unforgiving, in that customers will not expect more, but they will demand more and retaliate if and when this is not provided.

A slightly different and more focused view of the future has been spelled out by Hill and Lederer (2002) who, in their book *The Infinite Asset* map out a future of world brand domination. In a few years, they suggest, we will see brand-based business models become the dominant corporate life form. The implication of this is that the successful twenty-first century corporation will not be a collection of buildings, equipment and products, but a collection of brands and the activities that support them. In short, brands will exceed marketing. However, in making out this case, they argue that there is a need to forget about conventional notions of a brand simply being a name or a term that identifies a company or product. Instead, they suggest that there is the need to think about 'intersections' – points where two (or more) brands might meet. As an example of this, they talk about branding dream teams (e.g. Apple and Microsoft) and highlight the marketing potential of liaisons such as this.

The emergence of hypercompetition and the erosion of traditional competitive advantage

Since the early 1990s, a wide variety of markets has witnessed an increase in the nature and intensity of competition. Referring to this as the 'era of hypercompetition', D'Aveni (1999, p. 57) suggests that 'domestic upstarts and foreign entrants have entered markets with a ferocity that has toppled national oligopolies and well-established industry leaders'. As just one

example of this, he points to the way in which Microsoft, Intel, Compaq, Dell and a host of clone manufacturers from Asia have battered the once invincible IBM. (Authors' Note: Subsequently, IBM has sold its laptop business to the Chinese manufacturer Lenovo.)

D'Aveni (1999) suggests that:

> *hypercompetition is characterized by constantly escalating rivalry in the form of rapid product innovation, shorter design and product life cycles, aggressive price and competence-based competition, and experimentation with new approaches to serving customer needs. Hypercompetitors engage in an unrelenting battle to re-position themselves and to outmanoeuvre their competitors. By being customer-oriented, by turning suppliers into alliance partners and by attacking competitors head on, global hypercompetitors destroy the existing norms and rules of national oligopolies.*

Given this, the implications for how firms operate are significant. If an organization is to win an advantage, it must seize the initiative. It 'must serve customers better than its competitors and must do things that competitors cannot or will not react to or even understand' (D'Aveni, 1999, pp. 57–8). To rely upon traditional thinking and defensive strategies as opposed to attempting to disrupt and unsettle the competition will almost inevitably lead to the firm's position being eroded. It is because of this that a number of commentators now believe that the idea that competitive advantages based upon the traditional ideas of quality, competencies, entry barriers and economies of scale is rapidly losing validity. Instead, success is far more likely to come from a reinvention of the rules of competition within the marketplace.

This move towards hypercompetitive markets appears to have been driven by four factors:

1. *The demand by customers throughout the world for higher quality at lower prices*. In the USA, for example, numerous low-cost foreign competitors have entered price-sensitive market sectors with a higher value for money offer than the well-entrenched players. Having established a foothold in the market, they have gone on to expand the market and capture significant share.

2. *The speed of technological change and the information revolution* that has led to the traditional 'owners' of markets being outsmarted by new players who move faster and in very different ways. As an example of this, First Direct rewrote some of the rules of banking by being the first in the UK to offer 24-hour telephone and then Internet banking.

3. *The emergence of aggressive and well-funded competitors* who take a long-term view and are willing to lose possibly substantial sums of

money in the early years in order to dominate a market with long-term strategic potential and significance.

4. *Changes in government policies that have led to the collapse of traditional entry barriers*. Examples of this include legislation on competition within the EU, the reduction of tariffs, and the trend worldwide towards privatization and deregulation that has allowed non-traditional competitors to break up long-standing oligopolies.

Competing (effectively) in hypercompetitive markets

Faced with an increasingly hypercompetitive market, the marketing strategist is faced with a number of options. However, underpinning all of these has to be the recognition that the traditional competencies are likely to become increasingly less relevant as the rules of the competitive game change. The astute competitor therefore plays upon this by disrupting the product market and/or the factor (input) market.

In order to disrupt the product market, there are several possibilities, the most obvious of which involve:

1. *Changing the bases of competition* by redefining the meaning of quality on the product and then offering it at a lower price, a strategy that was pursued by easyJet when it entered the airlines market.

2. *Modifying the boundaries of the market* by bundling and splitting industries. In the mobile phone market, for example, the astute competitors recognized that it is the air time that offers the greatest opportunities to make money, not the hardware. Because of this, the major players, particularly in the early years, focused upon building the customer base by offering cellular phones at very low prices. Equally, Microsoft and Intel split the personal computer business by capturing the value that at one stage was held by the PC manufacturers.

To disrupt the factor or input market, the strategist needs to focus upon one or more of three possibilities:

1. *Redefining the knowledge that is critical to success*. Dell, for example, by opting for direct selling through the Internet and telephone ordering, assembly to order and outsourced delivery, undercut many of the traditional players.

2. *Applying competencies developed outside the industry*. This approach is illustrated by First Direct's use of IT and telephone selling expertise developed in other sectors.

3. *Altering the sums of money needed to survive within a particular sector*. The so-called 'category killers', such as Toys 'R' Us, Wal-Mart and Car Supermarket, are all examples of this sort of approach.

Given the nature of these comments, it is apparent that, within hyper-competitive markets, the rules of competition change dramatically. In order to survive and prosper, firms need to behave in a very different way, characterized by far more rapid innovation, aggressive price- and competence-based competition, new approaches to meeting customers' needs, and very different mindsets.

Market domination and third-wave companies

For many organizations faced with or facing massively changed environments and ever greater customer expectations, the nature of the strategic marketing planning challenges with which they need to come to terms are radically different from those of the past. The implications of this, according to Vollman (1996, p. 5), are that organizations generally, but manufacturing firms in particular, need to recognize the need to dominate their markets. It is the failure to do this, he argues, which will almost inevitably lead to the decline and probable death of the organization. In making this comment, he believes that the nature and scope of change over the past few years has led to such a change in the competitive environment that what contributed towards the profile of a winning organization in the past does not necessarily apply today.

These 'third-wave' companies differ from their predecessors in a variety of ways although, in nearly every instance, he suggests they reached their current position not by a series of evolutionary moves, but by a transformative leap which gave them a profile of dominance. However, it needs to be recognized that domination is not necessarily about *size* (General Motors, for example, despite being the biggest automotive company, for many years failed to dominate the industry. Instead, it was the initially smaller organizations such as Toyota that set the pace of competition), *monopolistic competition* or *profitability*. Rather it is the degree of influence they exert within their market sector(s).

The alternative to market domination, Vollman argues, is organizational death, with this happening quickly or, more frequently, very slowly (see 1996: ch. 1, Figure 1.5 and the supporting discussion). The signs of organizational decay are often identifiable long before crises become apparent. Included within these are a loss of market share, possession of the wrong set of competencies, slow(er) or slowing growth patterns, a loss of employee morale, poor product and process development, and the failure to recognize competitors' true capabilities (see Figure 5.8).

Faced with problems such as these, organizations typically respond in one of a number of ways, including:

■ Improvement programmes such as time-based competition, quality and flexibility. However, in many markets these sorts of initiatives no longer provide the basis for competitive advantage, but are instead 'commodities of process'. In other words, without them you will not survive, but with them you are simply a player in the market.
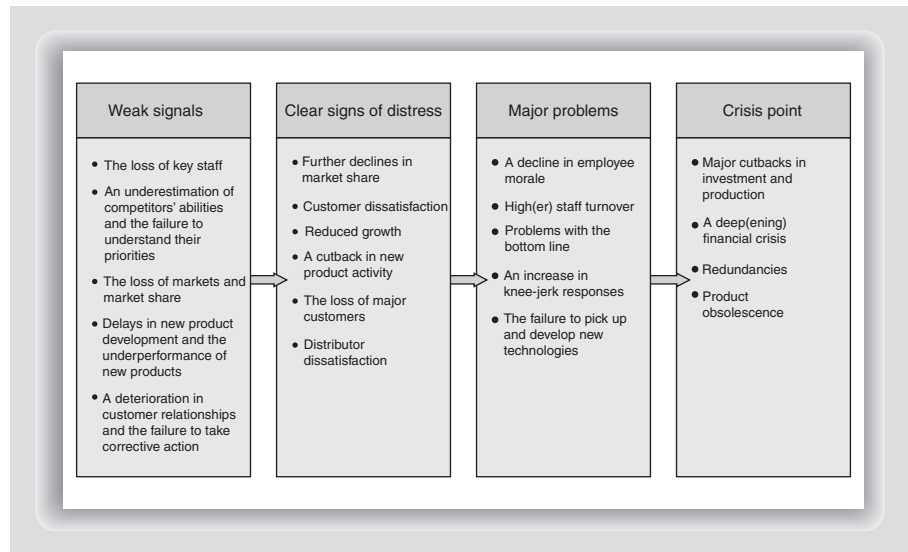
FIGURE 5.8 *The signs of impending doom*

■ Financial restructuring and downsizing which, whilst apparently helpful in the short-term, often do little to change the organizational culture.

■ Management changes, which are characterized by a reshuffling of job titles, responsibilities and structures, rather than any real change in focus and direction.

By contrast, dominant organizations typically exhibit a very different set of characteristics and responses, including:

■ Paradigm shifts that reflect a recognition that the old set of operating assumptions is no longer valid.

■ Proactive rather than reactive changes, with these being made possible because of:
   High levels of responsiveness and flexibility
   A high degree of anticipation and forecasting of how the market is likely to develop
   The creation of change in the marketplace as the result of a series of marketing initiatives.

■ Enterprise transformation that, because of a fundamental recognition on the part of management of the significance of environmental change and the consequent inadequacy of current structures and systems, leads to radically different ways of doing business.

The combined effect of these sorts of initiatives is that, in the successful organizations (Vollman, 1996, p. 7):

the very shape and structure of the enterprise have had to change, their competencies and capabilities have changed, their resources have changed, their outputs have changed, their attitude to customer service has changed and their fundamental raison d'être has changed.

In the unsuccessful, their missions have reverted back to 'doing core business', crisis management has replaced strategy and 'passengers' (such as cost) replace 'drivers' (such as customer satisfaction). They certainly are not the companies they once were – they have indeed been transformed. But no one was steering the change towards dominance.

5.9   APPROACHES TO ENVIRONMENTAL ANALYSIS AND SCANNING

Against the background of our discussion so far, it should be clear that environmental analysis and forecasting are capable of making a major contribution to the formulation of strategy. Indeed, it has been argued by a number of strategists that environmental analysis and forecasting is the true starting point of any effective planning system, since strategy is based not only on a detailed understanding of the firm's capacity, but also on a full knowledge and appreciation of environmental forces and changes that are likely to have an impact on the firm. At its most extreme, the failure to do this is highlighted by Theodore Levitt's ideas of 'Marketing Myopia', which he discussed in his now classic *Harvard Business Review* article (1960, pp. 45–56).

In this article Levitt argued that declining or defunct industries generally reached this position because of a product rather than a marketing orientation. In other words, they focused too firmly on products rather than the environment in which they operated. As a consequence, these companies were often taken by surprise by environmental change, found it difficult to respond and, in many cases, either lost significant market shares or were forced into liquidation.

A system of environmental analysis and forecasting consists of two elements: the first of these is concerned with the *generation* of an up-to-date database of information, while the second involves the *dissemination* of this information to decision-makers and influencers. The effectiveness of such a system, and in particular of this second part, is in practice likely to be influenced by a variety of factors, including:

- The technical skills of those involved in the process of analysis and forecasting

- The nature of the managerial environment that exists within the company.

The significance of this second point is, in many companies, all too often ignored, but highlights the importance of a planning culture that is both endorsed and promoted by top management. In addition, the managerial environment affects the process in the sense that, in large companies at least, those who are involved in the mechanics of analysis and forecasting are rarely the decision-makers themselves. Instead, they are generally in an advisory role. This role can lead to the emergence of an important political process within the system, whereby the analyst presents information in such a way that the decision-maker's perception of the environment and, in turn, the options open to the company, are distorted in a particular way. By the same token, the decision-maker will often place a particular interpretation on the information presented by the analyst, depending on his or her perception of the analyst's track record. In commenting on this political process, Brownlie (1987, p. 99) suggests that:

> *students of history will recognize that many a bloody political intrigue was spawned by the jealously guarded, and often misused, privilege of proximity to the seat of power which was conferred on privy counsellors and advisors. Thus in addition to the technical skills demanded of environmental analysts and forecasters, astute political skills could be said to be the hallmark of an effective operator.*

It should therefore be recognized that the effectiveness of a planning system is not determined solely by its methodology, but that it is also affected by several other factors, including the willingness and ability of a management to recognize and subsequently respond to the indicators of coming environmental change.

Taken together, these comments argue the case for what we can refer to as *formal environmental scanning*, a process that covers the full spectrum of activities firms use in order to understand environmental changes and their implications. The essential element of formal environmental scanning is that it should be seen as an activity that becomes an *integral* part of the ongoing process by which companies develop, implement, control and review strategies and plans at both the corporate and the business unit levels.

In practice, the precise role of an environmental scanning process is influenced by a variety of factors, the most significant of which is typically that of management expectations. This, in turn, is often a function of the size of the organization and managerial perceptions of the complexity of its environment. Thus, in the case of many small firms, the focus is likely to be on the general trends that are likely to influence short- and medium-term levels of performance. In large firms, however, and in particular the multinationals, the focus tends to be far broader, with a greater emphasis being placed upon longer-term and more fundamental issues, including possible changes in the political, economic, social and technological variables that provided the focus for the first part of this chapter.

Having said this, the complexity of the scanning process varies greatly from one company to another and is typically determined by two factors:

1. Perceptions within the company of the degree of environmental uncertainty (most typically this is a function of the rate of environmental change)

2. Perceptions of the degree of environmental complexity (this is generally influenced by the range of activities and markets in which the firm is currently and prospectively involved).

The significance of this second factor needs to be seen in terms of the implications for the structure of the scanning process that the firm then develops. Recognizing the dangers of overload within a system, there is a need for those involved in scanning to organize the process in such a way that the environment can be reduced to something manageable, while at the same time ensuring that extraneous factors are not ignored. What this means in practice is that a process of filtration generally operates in which the full breadth of environmental stimuli is reduced to something more manageable.

The question of who should decide on these elements has been referred to by Ansoff (1984), who has argued that it is the *user* of the information who should exert the major influence. In practice, however, it is often the scanner who determines the choice of approach.

Returning for a moment to the filtration process through which a structure is imposed upon the full breadth and complexity of the environment, Brownlie (1987, pp. 110–12) identifies three levels:

1. *The surveillance filter*, which provides a broad and generally unstructured picture of the business environment. However, although this picture is broad it will, by virtue of the perceptions of those involved, 'be selective and partial'.

2. *The mentality filter*, which emerges as the result of past successes and failures, and in turn leads to the idea of *bounded rationality* (by which a manager's ability to make optimal decisions is constrained by factors such as complexity and uncertainty), allowing those involved to cope with the volume and complexity of the information being generated. However, while this mentality filter is undoubtedly useful in helping to provide a structure, bounded rationality can create problems in that environmental signals that are extreme in nature and outside the manager's historical experience are likely to be perceived as being of little significance and subsequently screened out. There is a need, therefore, to balance the benefits of the mentality filter with a willingness to assess and possibly incorporate novel and perhaps extreme signals.

3. *The power filter*, which is essentially an attitude of mind on the part of top management and reflects a willingness to incorporate material in the strategic decision-making process that falls outside the bounds of previous practice and preconceived notions. Recognition by the scanner of the existence of an attitude such as this is then likely to be reflected in the scanner's own willingness to build into the process a breadth of perspective rather than a straightforward identification and assessment of largely predictable environmental changes.

Against the background of comments such as these it is possible to identify the features that are most likely to lead to an effective environmental scanning system. These include:

- Top management involvement and commitment

- A detailed understanding of the dimensions and parameters of the scanning model that it is intended should operate

- An established strategic planning culture.

In addition, attention needs to be paid to the *boundaries of the firm's environment* and hence to those areas that are deemed to be either relevant or irrelevant, and to the *time horizon* that is felt to be meaningful. In the case of the chemicals and pharmaceuticals industries, for example, the planning time horizon – and hence the scanning period – may easily be in excess of 30 years, while in the fashion clothing industry it may be a year or less.

Recognition of these sorts of issues has led Diffenbach (1983) to identify the specific difficulties of environmental analysis that act as deterrents to the development and implementation of an effective scanning system:

1. The interpretation of results and the assessment of their specific impact upon the organization is rarely clear-cut

2. The output of environmental analysis may be too inaccurate, general or uncertain to be taken seriously

3. A preoccupation with the short-term pre-empts attention being paid to longer-term environmental issues

4. Long-term environmental analyses are often treated sceptically

5. In diversified businesses the amount of analysis needed is likely to be both considerable and complex, particularly when interrelationships are considered

6. Perceptions and interpretations of scenarios identified may differ significantly between one manager and another.

However, for many marketing managers, one of the biggest and most enduring problems is that of understanding their markets. Without this

understanding, they lose touch with the market, are taken by surprise by shifts in customers' expectations, are slow to react to competitors, and fail to make full use of their distribution channels. The net effect of this is that they then fail to anticipate the nature and direction of changes within the market, constantly miss opportunities and, when they do respond, typically behave slowly and counter-productively. By contrast, managers within the truly market-driven organization are notable for the way in which they sense how their markets are likely to change, the nature of the opportunities that this is likely to create and how these opportunities can then best be exploited.

In discussing the difference between the two types of organization and what determines whether an organization is market driven, Day (1996a, p. 12) highlights the importance of market learning:

> *Market learning involves much more than simply taking in information. The learning process must give managers the ability to ask the right questions at the right time, absorb the answers into their mental model of how the market behaves, share the new understanding with others in the management team and act decisively. Effective learning about markets is a continuous process that pervades all decisions. It cannot be spasmodic.*

This effective learning process, which is illustrated in Figure 5.9, consists of several distinct stages:

- *Open-minded enquiry* based on the belief that decisions need to be based on a detailed and broad understanding of the market, and that conventional wisdoms and preconceived notions and beliefs are dangerous

- *Widespread information distribution* to ensure that managers across the organization develop a greater market understanding

- *Mutually informed mental models*, which are used in the interpretation of information and ensure that issues that are deemed to be strategically important are examined

- *An accessible organizational memory* to ensure that the organization keeps track of what has been learned so the information and knowledge can continue to be used.

The process is then reinforced by a deliberate reflection on the outcomes of the strategies and tactics that have been developed and, by means of integrated databases, the augmentation of the organizational memory.

The dangers of misjudging the market

The potentially significant implications of misjudging a market have been highlighted by Vodafone's experiences in Japan. Part of the rationale for
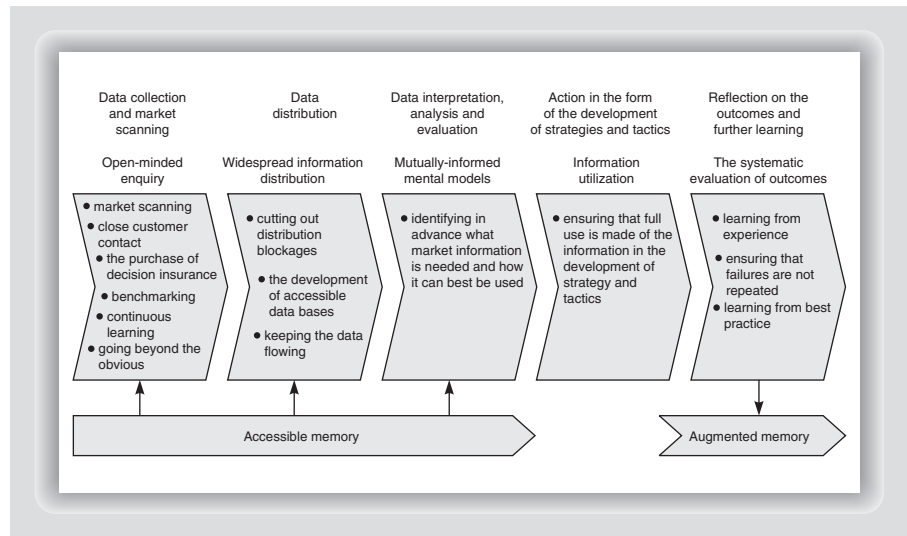
FIGURE 5.9 *The organizational learning process (adapted from Day, 1996a)*

entering the market in 2001 was that the lessons that the company learnt in the Japanese market would give it a technological and marketing advantage over its domestic and European competitors. In the event, the company had problems rolling out to the rest of the organization some of the technologies perfected in Japan, whilst in Japan itself the company failed to produce the 'must-have' handset for Japanese consumers. Instead, it made what is now seen to be one of its biggest errors of judgement – the introduction of a range of inappropriate 3G Nokia handsets from the European market. The customers' rejection of these had the effect of delaying further the company's roll-out of 3G technology.

Marketing techniques developed in Europe proved also to be flawed when exposed to the nature of the Japanese market and, in particular, customers' expectations of service level. The company found itself lagging behind its principal competitors, NTT DoCoMo and KDDI, and was then forced to invest £1.3 billion in an attempt to match the levels of service they were delivering.

Faced with this, the company announced in 2006 its withdrawal from the market.

5.10 SUMMARY

Marketing strategy is concerned with matching the capabilities of the organization with the demands of the environment. There is therefore a need for the strategist to monitor the environment on an ongoing basis so that

opportunities and threats facing the organization are identified and subsequently reflected in strategy.

In analysing the environment a stepwise approach is needed. This begins with an initial audit of general environmental influences, followed by a series of increasingly tightly-focused stages designed to provide the strategist with a clear understanding of the organization's strategic position.

Although a variety of approaches can be used for analysing the environment, arguably the most useful is the PEST framework. This involves the strategist focusing in turn upon the Political/legal, Economic, Social/cultural and Technological elements of the environment. Each of these elements has been discussed in detail.

The environmental conditions faced by an organization are capable of varying greatly in their complexity, and need to be reflected both in the ways in which environmental analysis is conducted and in the ways in which strategy is subsequently developed. The consequences of failing to take account of a changing environment have, as discussed, been illustrated by a wide variety of organizational experiences, including those of the Swiss watch industry in the 1970s.

It is widely recognized that the pace of environmental change is increasing and that the need for organizations to develop a structured approach to environmental analysis, with the results then being fed into the strategic marketing planning process, is greater than ever. Despite this, the evidence suggests that in many organizations environmental scanning systems are only poorly developed. If this is to change, top management commitment both to the development of a scanning system and to the incorporation of the results into the planning process is essential.