Chapter 4

Market and environmental analysis
4.1 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.

4.2 Introduction: the changing business environment (or the new marketing 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 consequently 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 4.1. Although the fourteen points identified in Figure 4.1 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 are increasing. They also illustrate the point made in Chapter 1 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.

4.3 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, Johnson and Scholes (1988, p. 54) 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, which is illustrated in Figure 4.2, consists of five stages:

1. The starting point in this process is the *general audit of environmental influences*. The purpose of this is to identify the types of environmental factors that have influenced the organization’s development and previous performance, and to arrive at an initial conclusion of the likely important influences in the future.

2. From here the strategist moves to an *assessment of the nature of the environment* and the degree of uncertainty and change that is likely to exist. If, from this, the strategist concludes that the environment is relatively static, then historical analysis is likely to...
prove useful. If, by contrast, the environment shows signs of instability, then a stronger emphasis upon the future is needed.

3 The third phase then involves focusing upon specific environmental factors such as the nature and structure of the market.

4 This in turn leads to an analysis of the firm’s competitive position. A detailed discussion of how this can be done appears in Chapter 6. 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.

5 This information is then used as the basis for identifying in detail how environmental forces are likely to affect the organization and, in particular, the opportunities and threats that are likely to exist. This in turn provides the basis for a detailed understanding of the organization’s strategic position and the degree to which there is match between strategy, structure and environment.

At this point we will examine the first three stages of this stepwise approach; the fourth stage is discussed at the end of this chapter, while the fifth stage was covered in some detail in Chapter 2.

Referring back to Figure 4.2, it can be seen that the first step in the process involves the general audit of environmental influences. 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 4.3.

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 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 4.4.
MARKET AND ENVIRONMENTAL ANALYSIS

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 4.3 The PEST framework for environmental auditing

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Simple/static</th>
<th>Dynamic</th>
<th>Complex</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aims</strong></td>
<td>To achieve thorough (historical) understanding of the environment</td>
<td>To understand the future rather than simply relying on past experiences</td>
<td>The reduction of complexity</td>
</tr>
<tr>
<td><strong>Methods</strong></td>
<td>Analysis of past influences and their effect on organizational performance</td>
<td>Managers’ sensitivity to change</td>
<td>Greater structural understanding</td>
</tr>
<tr>
<td><strong>Dangers</strong></td>
<td>The sudden emergence of unpredicted change</td>
<td>Scenario planning</td>
<td>Specialist attention to elements of complexity</td>
</tr>
<tr>
<td><strong>Dangers</strong></td>
<td>Mechanistic organizational structures</td>
<td>Contingency planning</td>
<td>Model building</td>
</tr>
<tr>
<td><strong>Dangers</strong></td>
<td>Lack of skills</td>
<td>Sensitivity planning</td>
<td></td>
</tr>
<tr>
<td><strong>Dangers</strong></td>
<td>Focus on existing relationships</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dangers</strong></td>
<td>Lack of willingness to accept that conditions are changing</td>
<td>Management myopia</td>
<td>Unsuitable organizational structure or control systems</td>
</tr>
<tr>
<td><strong>Dangers</strong></td>
<td>Stereotyped responses</td>
<td>Mechanistic organizational structures</td>
<td>Inappropriate reactions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of skills</td>
<td>Inappropriate focuses</td>
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<td></td>
<td></td>
<td>Failure to recognize significant new players</td>
<td>Over-reaction</td>
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</tbody>
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Figure 4.4 Handling different environmental conditions (adapted from Johnson and Scholes, 1988)
Environment types

The question of how to categorize environments has been discussed in some detail 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?
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:

<table>
<thead>
<tr>
<th>Simple</th>
<th>Complex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Routine</td>
<td>Non-routine</td>
</tr>
<tr>
<td>Unconnected</td>
<td>Interconnected</td>
</tr>
<tr>
<td>Proximate</td>
<td>Remote</td>
</tr>
<tr>
<td>Static</td>
<td>Dynamic</td>
</tr>
<tr>
<td>Predictable</td>
<td>Unpredictable</td>
</tr>
<tr>
<td>High input receptivity</td>
<td>Low input receptivity</td>
</tr>
<tr>
<td>High output receptivity</td>
<td>Low output receptivity</td>
</tr>
<tr>
<td>High domain choice flexibility</td>
<td>Low domain choice flexibility</td>
</tr>
</tbody>
</table>

Taken together, these elements can be incorporated into the matrix shown in Figure 4.5. In turn, changes taking place within the environment can be plotted in Figure 4.6. 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
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Figure 4.5 Degrees of environmental complexity (adapted from Daft, 1998)

Figure 4.6 Issues of immediacy and impact
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 Virgin and then by the low-cost airlines such as Ryanair.

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 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. 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. In discussing how to cope with this, Johnson and Scholes (1988, p. 61) suggest that there are organizational and information processing approaches:

"Complexity as a result of diversity might be dealt with by ensuring that different parts of the organization responsible for different aspects of diversity are separate and given the resources and authority to handle their own part of the environment. Where high knowledge requirements are important it may also be that those with specialist knowledge in the organization become very powerful because they are relied upon, not only to make operational decisions, but are trusted to present information in such a way that a sensible strategic decision can be made: or indeed they themselves become responsible for the strategic decisions. As an information processing approach there may be an attempt to model the complexity. This may be done through a financial model, for example, which seeks to simulate the effects on an organization of different environmental conditions. In its extreme form there may be an attempt to model the environment itself. The Treasury Office draws on a model of the UK economy, for example. However, for most organizations facing complexity, organizational responses are probably more common than extensive model building."
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 adopted.

A framework for analysing the environment is shown in Figure 4.7. Here, the planner begins by identifying a series of basic beliefs (these are the environmental changes and conditions that the planner believes fundamentally will characterize the market over the next 12, 24 and 36 months). Having identified these, the planner then takes each in turn and identifies the implications for the business as a whole and/or the brand. The final stage involves taking each of the implications and deciding how best they can be managed; the test here is that, if action is not taken, then either a significant opportunity will be missed or the organization will be hit hard by something within the environment.

**Market change and the redefinition of the marketing mix: the role of partnerships (the fifth P of marketing)**

As markets have become more competitive and customers far more demanding, many of the traditional bases of competitive advantage have, as we discuss on p. 6, been eroded. The implications of this for marketing planning have been seen by the way in which previously powerful elements of the marketing mix (such as the product, price and place) have become increasingly more standardized or commoditized across markets and, as a result, no longer act as a meaningful base for differentiation. In an attempt to overcome this, many marketing planners have shifted the focus for
differentiation away from the ‘hard’ elements of the mix (the product, price, place and promotion) to the ‘softer’ elements of people, physical evidence and process management (see pp. 6–7).

At the same time, in many particularly competitive markets, a further P – that of partnerships – has been added to the mix. The reason for this is that the rules of competition, insofar as they have ever existed, have for numerous organizations changed dramatically, with the result that marketing planners are no longer fighting on clearly delineated grounds where the competitor is obvious. In an attempt to come to terms with this, there has been an explosion in the number of strategic alliances that can cut across geographies and technologies. Although these alliances are not always necessarily comfortable, they are typically driven by expediency and represent an attempt either to reduce the costs of market entry, exploit economies of scale and scope, gain access to difficult markets, create new market knowledge, or leverage technological shifts. Although alliances are by no means new, the major change that took place at the end of the twentieth century and beginning of the twenty-first was the number and scale of these. The rationale in most cases is straightforward and relates to the ways in which alliances can cut the costs of market entry, exploit economies of scale and scope, either difficult and/or highly regulated markets, or provide access to new technologies and knowledge.

Amongst the industries in which this strategy has been pursued – with varying degrees of success – are cars and high technology. In the case of IBM, for example, in 1993 only 5 per cent of the firm’s sales outside personal computers came from alliances. By 2001, the number of alliances had increased to almost 100 000 and contributed almost one-third of its turnover, boosting this by $10 billion (£6.3 billion). The significance of alliances as a basis for advantage has also been highlighted by the consultancy Ernst & Young, which, in an investigation of online retailing across twelve countries, found that 65 per cent of non-US and 75 per cent of US companies operated with some form of alliance. The driving force for this, the report argued, is the intensification of competition, which makes it impossible for firms to be managed properly unless alliances are used to leverage strengths in areas such as marketing, supply chain management and finance.

The implications for the marketing planner are significant and can be seen most obviously in the way in which alliances demand a greater degree of flexibility in thinking – both in terms of the alliances that need to be entered into and managed, and also in the ability to withdraw from them once they are no longer strategically valuable.

4.4 The nature of the marketing environment

The marketing environment has been defined in a variety of ways. Churchman (1968), for example, has referred to it in terms of factors that are outside the system’s control but 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 that 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 4.8.

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 developed or changed so that the company benefits in some way. The car, foodstuffs, 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, interest rates, the development of new economic thinking and, perhaps most importantly, 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.

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 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 4.1. This has in turn led to the idea of ‘strategic windows’, a concept which 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 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; this is discussed in detail in Illustration 4.2.
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.

Illustration 4.2 The Swiss watch industry and the consequences of new (and unexpected) competition

In 1948 the Swiss watch industry accounted for 80 per cent of all watches sold in the world. By 1985 its share of the market had dropped to just 13 per cent, with the Japanese, a relatively new entrant to the market, having taken over as market leader.

This surprising and remarkably rapid change in the market's structure was attributable to several factors, the most important of which can be identified as:

1. A failure on the part of the Swiss to come to terms with the explosive growth in the less expensive sector of the market.

2. The speed of the switch away from mechanical (i.e. spring-powered) watches to the far more accurate quartz-powered watches. Whereas 98 per cent of all watches and movements produced in 1974 were mechanical and only 2 per cent were quartz, in 1984 the breakdown was 24 per cent mechanical and 76 per cent quartz. Ironically, in the light of the source and the technological base of the attack upon the Swiss watch industry, the quartz electronic watch was invented in Switzerland in 1968, but first marketed in the USA.

3. A failure to come to terms with the increasing Asian penetration of the large and lucrative American market. While Switzerland's estimated contribution to American import volume decreased from 99 per cent in 1950 to 4 per cent in 1984, the percentage of import volume from Asia increased from 10 per cent in 1970 to 92 per cent in 1984.

The Japanese and subsequently the Hong Kong manufacturers owed their success to a combination of aggressive marketing, a high degree of production concentration and, perhaps most importantly, a relatively complacent competitor who was taken by surprise by the sudden inroads made by the Japanese and subsequently found it difficult to retaliate. With regard to the first two points, the nature of the challenge has been summed up in the following way.

The Japanese industry was highly concentrated, with the two major firms (Hattori Seiko and Citizen) stressing the development of automated production lines and maximum vertical integration of operations. Compared with the multitude of Swiss watch brands, the combined product lines of these two plus Casio, the third major Japanese watchmaker, did not exceed a dozen brands. In contrast, the industry in Hong Kong was highly fragmented, with several manufacturers producing 10–20 million watches per year and hundreds of small firms producing less than 1 million annually. These firms could not afford to invest in quartz analogue technology but, with virtually no barriers to entry for watch assembly, they produced complete analogue watches from imported movements and modules.
The new marketing environment

It is suggested at the beginning of Chapters 5 and 6 that among the legacies of the economic and social turbulence of the late 1980s and then the whole of the 1990s has been the emergence of a new type of consumer and the development of a new type of
competitive environment. 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; this is illustrated in Figure 4.9, with organizations facing a general shift towards stages 3 and 4. The consequences of this shift have been felt in a variety of ways, but most obviously in terms of the need for a different approach to management; this would typically be 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.

In Figure 4.9, it is stages 3 and 4 which are of the greatest importance to us here. 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’. Thus, he argues, 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

![Figure 4.9 Patterns of environmental change](image-url)
approach has, in turn, been developed by a wide variety of other commentators (see, for example, Brown, 1995; Nilson, 1995), 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: firstly, 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 in one of a number of ways; this is illustrated in Figure 4.10.

Although the diagram shows the movement through the six stages, in practice of course many firms find such change to be difficult or impossible. In these circumstances, the organization will quite simply continue to drift further and further from what the market is demanding.

### 4.5 The evolution of environmental analysis

Recognition of the potential significance of environmental change highlights 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.

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 second 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 (see Fahey et al., 1981):

1 Irregular systems, which predominate in companies with a poorly developed planning culture and in which the focus is upon responding to environmentally 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.
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.

Fahey et al. (1981) went on to suggest that, although there is a general shift within American companies towards more sophisticated systems, this movement is slow and, compared with its apparent impact, has still to justify the level of resources required.

Nevertheless, 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 the 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.

4.6 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, second, 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 4.6, 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 said:

“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 non-existent. 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 the 1970s in the wake of the oil 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. An increase in real income growth
2. Continuing inflationary pressures
3. Changes in the savings/debt ratio
4. Concern over levels of Third World debt
5. Different consumer expenditure patterns.

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 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

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, second, 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.

Illustration 4.3 The growth of the single-parent family

Between 1986 and 2001, the number of single-parent families in Britain doubled to the point at which they represented more than a quarter of families with children. These figures, published by the Office for National Statistics, also suggested that there were 1.75 million one-parent families and that almost 2.9 million, or 26 per cent, of children aged under 19 live in a one-parent family. The report highlighted the way in which virtually every kind of one-parent family had risen in relative numbers, but that the sharpest rise was the number of single lone mothers – women who had never married. The 26 per cent of families that lone parent units accounted for compared with just 14 per cent 15 years earlier.
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 (see Illustration 4.3). 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 5 (p. 215), 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 that, 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 graphically by the way in which, by 2025, the UK will have 1.6 million more people aged over 65 than under 16.

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 pp. 332–34) who have substantial sums of discretionary income and high expectations (see Illustration 4.4).

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 (see Illustration 4.5).

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 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 computer terminals.

Illustration 4.4 The changing consumer: the growing power of the grey market

For many organizations, the over-50s market is seen to consist of largely passive consumers who are of little real interest to marketers. The reality, however, as a series of studies published at the end of the 1990s revealed, is often very different.

Prominent amongst the drivers of the growing importance of this market is the way in which the baby boomer generation is now moving into its 50s and that, in terms of size, the market is growing. The essentially active nature of the market is revealed by a variety of statistics, including the fact that 30 per cent of expenditure on household goods comes from households where the head is over 50 years old.

Undoubtedly one of the biggest mistakes that marketers have made in the past is to view the over-50s as a single consumer group. Given that the market now accounts for 40 per cent of the population, it is in reality a remarkably heterogeneous group. Recognition of this has led the specialist 50-plus advertising agency Millennium Direct to segment the market in terms of ‘thrivers’ (50–59), ‘seniors’ (60–69) and ‘elders’ (70-plus). By contrast with the
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typically time-poor thirtysomethings who have mortgages to pay and young children to look after, the over-50s market is frequently time-rich and, in many cases, has a high disposable income. It tends also to be a market in which levels of brand loyalty are high.

If anything, the significance of the over-50s market is likely to increase dramatically over the next few years, not just because of its greater size and higher total net worth, but also because the values of the baby boomer generation are very different from those that went before. The ways in which the expectations of the baby boomers have developed was touched upon by Robert Bork (1996) in his book *Slouching Towards Gomorrah*. Bork argues that the children of middle-class liberalists spent the 1960s questioning many of the traditional tenets of society and, in doing this, created fragmented markets in which the ‘we’ people become the ‘me’ people, who were far more demanding and far less tolerant. The baby boomer generation is also very different from its predecessors in one other very important way: it was the first generation in which the economics of scarcity were replaced by the economics of plenty and consumers were placed on a pedestal with companies setting out to satisfy their every whim.

Given this, the grey market (which includes both authors of this book) can only become far more powerful and demanding over the next few years.

Illustration 4.5 The changing face of women

The *Zeitgeist* of the late 1990s was captured by Helen Fielding (1997) in her highly successful book *Bridget Jones’ Diary* (that was later made into a film). This depicted an angst-ridden woman obsessed with her single status and calorie intake. Given that 19.1 per cent of women describe themselves as single and that at any one time more than 80 per cent of women are concerned with their weight and/or shape, Fielding’s book certainly seemed to ring true for many.

The march to affluence continued, with 19.6 per cent classified as ABs. More women worked: 28 per cent full time and 18 per cent part time. The TGI data shows that 15.6 per cent of women were educated beyond the age of 19, rising to 25 per cent among those aged 25–34 – with 7.4 per cent still studying.

The traditional family unit continued its decline. By 1999, sole-adult households had risen to 22 per cent, and those living alone were up from 13.8 to 17.2 per cent. The number of single parents had almost doubled, from 650 000 to 1.2 million – four times the level of 1969.

Home ownership has become more common: 26 per cent owned their home outright, while the proportion in the process of buying rose to 45 per cent.

Another change has been the increasing amount of weekly travel for many women, especially those in work. In 1969, only 5.2 per cent were ‘heavily exposed’ to poster advertising; by 1999, 25.7 per cent fell into this category.

In 1999 nearly half of all women (47.1 per cent) had a credit card, and four out of every five had a bank account. On the home front, 40 per cent of households...
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 by Albrecht (1979) in the following ways:

> "The period from 1900 until the present stands apart from every other period in human history as a time of incredible change. Mankind, at least in the so-called ‘developed’ countries, has lost its innocence entirely. The great defining characteristics of this period – the first three-quarters of the twentieth century – have been change, impermanence, disruption, newness and obsolescence, and a sense of acceleration in almost every perceptible aspect of American society.

Philosophers, historians, scientists, and economists have given various names to this period. Management consultant Peter F. Drucker (1968) has called it the Age of Discontinuity. Economist John Kenneth Galbraith (1977) has called it the Age of Uncertainty. Media theorist Marshall MacLuhan (1964, 1968) called it the Age of the Global Village. Writer and philosopher Alvin Toffler (1970, 1975) called it the Age of Future Shock. Virtually all thoughtful observers of America, Americans, and American society have remarked with
some alarm about the accelerating pace with which our life processes and our surrounds are changing within the span of a single generation. And this phenomenon is spreading all over the industrialized world. I call this the Age of Anxiety.

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 United States, 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 4.6, 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 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.

Underlying all of these points is, of course, a recognition of the product life cycle (PLC) concept. The pros and cons of the PLC are detailed elsewhere in this book, and at this stage we are therefore concerned with the way in which simple recognition of the concept argues the case for the development of a formal technological forecasting system, which then acts as an input to the process of developing marketing strategy.

Illustration 4.6 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 are 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.

4.7 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.”

There are numerous examples of industries in which the phenomenon has been experienced (see, for example, the discussion of the Swiss watch industry in Illustration 4.2 and the launch of Häagen-Dazs ice-cream in Illustration 11.7), 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. The experiences of the personal computer industry are discussed in Illustration 4.7. 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.

Illustration 4.7 Industry breakpoints and the personal computer industry

When Apple launched its first PC, it provided the market with a low-cost product that was infinitely more convenient than traditional centralized computing systems. However, few, if any, of the established players appear to have seen Apple as any sort of threat. By contrast, numerous small firms recognized the opportunities that Apple's simplicity offered, with the result that competition in the PC market escalated as firms tried to define the form and content of a PC.

With IBM’s entry to this part of the market, an industry standard began to emerge, production volumes grew, prices dropped and the pace of technological change escalated. Many of the smaller players were unable to match the shifts that took place and were
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.

These are illustrated in Figure 4.12.

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.
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Figure 4.11  Breakpoints within the PC industry (adapted from Strebel, 1996)

Figure 4.12  The evolutionary cycle of competitive behaviour (adapted from Strebel, 1996)
- 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 that, 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.

4.8 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 that, if taken, would make a real difference to the organization’s performance in the marketplace.

**Looking to the future**

There is in many organizations 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) identifies ten major trends within the environment:

1. The move towards what he terms 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 suggests 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 multifaceted
- 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 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 10 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 have 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.

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 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, D’Aveni (1999, p. 60) suggests that there are several possibilities, the most obvious of which involve:

- **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.

- **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 players such as IBM.

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 hypercompetitive 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, does not dominate the industry. Instead, it is the 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 death, with this happening quickly or, more frequently, very slowly (see Chapter 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 4.13).

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 4.13 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."

4.9 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 which 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 expec-
tations. 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.

With regard to the specific benefits of environmental scanning, Diffenbach (1983),
in a study of ninety American corporations, has suggested that there are seven prin-
cipal pay-offs:

1. An increased general awareness by management of environmental changes
2. Better planning and strategic decision-making
3. Greater effectiveness in government matters
4. Better industry and market analysis
5. Better results in foreign business
6. Improvements in diversification and resource allocations

It should be noted that from this study Diffenbach found that, although environmental
scanning is widely practised and generally considered to be important by the majority
of those firms that do it (73 per cent), a sizeable number of companies (27 per cent)
simply did not bother with scanning, or did it but found it to be of only limited value
(28 per cent).

These benefits of environmental scanning have also been expanded upon by Jain
(1990, p. 250), who has listed the major attractions to be that the process:

1. Helps firms to identify and capitalize upon opportunities rather than losing out to
competitors
2. Provides a base of objective qualitative information
3. Makes the firm more sensitive to the changing needs and wishes of customers
4. Provides a base of ‘objective qualitative information’ about the business environment
   that can subsequently be of value to the strategist
5. Provides a level of intellectual stimulation for strategists
6. Improves the image of the firm with the public by illustrating that it is sensitive to its
   environment
7. Provides a continuing broad-based education for executives in general, and the
   strategist in particular.
Having said this, the complexity of the scanning process varies greatly from one company to another. In commenting on this, Ansoff (1984) has suggested that it is 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 clothing industry it may be a year or less.

Brownlie’s work (1983, 1987) suggests that environmental scanning is typically the responsibility of one of three levels of management:

1. **Line management**, with one or more line managers being given the task of scanning in addition to their normal responsibilities. In practice, however, such an approach typically suffers from limitations, the most obvious of which is that it is an additional responsibility and may not therefore get the attention it deserves. On top of this, the perspective is likely to be at best medium term, since the manager is unlikely to have the full range of specialist skills needed for the task to be performed effectively.

2. **Strategic planning**, in which environmental scanning is made part of the overall process of strategic analysis. While this is arguably more likely to succeed than is the case if responsibility is passed to line management, other problems are likely to emerge, largely because corporate staff may not necessarily understand the detail of the firm’s business on a day-to-day basis. Because of this, it is argued, they are unlikely to be able to define and interpret the relevant parameters of the environment any more effectively than a line manager.

3. **A specialist organizational unit** with specific responsibilities for environmental monitoring.

Of these, the third approach may be seen as an ideal that few firms have yet to embrace. As a result, it is a mixture of the first two that predominates in business today. Most typically the mixture operates on a largely unstructured basis, with corporate planners focusing upon the general environment, while line managers focus upon the product market. The two perspectives, together with the general forecasts that can be bought...
from consultants and organizations such as the Henley Centre, are then assessed before the overall picture is developed.

Recognizing these sorts of organizational problems 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.

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 customer 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 4.14, 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 pre-conceived 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.

4.10 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.