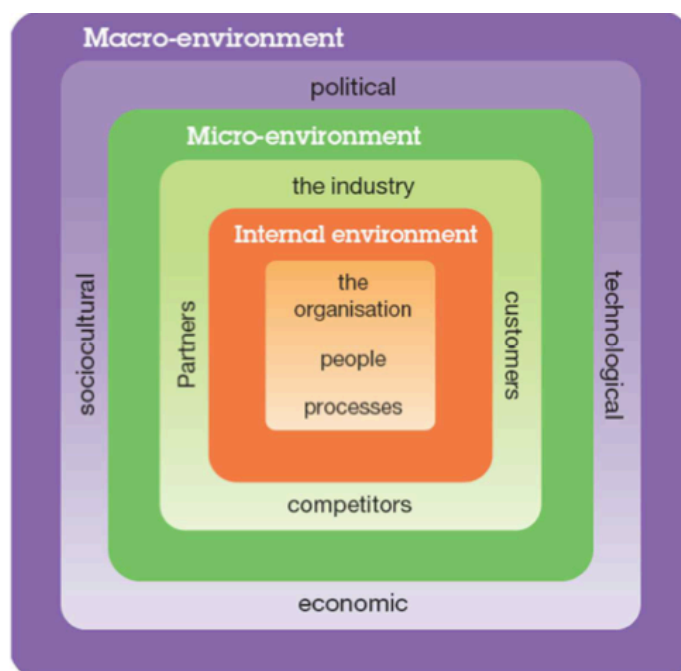


Chapter 11: The marketing Environment and marketing analysis

- Marketing – the activity set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large
- To meet customer needs - and to devise ways they can convince employees to change if necessary – marketers need to understand both who they are competing with, and what barriers to change currently exist in their own and partner organizations.
- Hence, Marketers must be able to analyze the environment.

The Marketing Environment

- Marketing environment – all of the internal and external forces that affect a marketers ability to create, communicate, deliver and exchange offerings of value
- 3 types of environments:
 - Internal environment
 - Refers to the organization itself and the factors that are directly controllable by the organization
 - Micro environment
 - Comprises the forces and the factors that play inside the industry in which the marketer operates
 - Affects all parties in the industry, including suppliers, distributors, customers and competitors.
 - Macro environment
 - Comprises the larger scale societal forces that influence not only the industry in which the marketer operates, but all industries
 - The factors include: political, economic, sociocultural, technological factors and legal forces (PESTL framework)
- Macro and micro environmental forces are outside of the organization, and cannot be directly controlled
- Environmental analysis - a process that involves breaking the marketing environment into smaller parts in order to gain a better understanding of it.



Internal Environment

- Internal environment – the parts of the organization, the people and the processes used to create, communicate, deliver and exchange offerings that have value.
- The organization can directly control its internal environment.
- Strengths and weaknesses are internal factors that positively and negatively affect the organization
- Internal organization is affected by the personal and political natures of the people who make it up.
- The main parts of a typical organization usually include:
 - Senior management – responsible for making decisions about the overall objectives and strategy of the organization
 - Middle management – typically responsible for a department or a geographic region.
 - Makes decisions about the overall objective and strategy of the department or geographic region for which they have responsibility.
 - To make sure the objective for their department or region are aligned with the objectives of the organization as a whole
 - Functional departments – organizations can be structured around functional departments and/or regions. It makes decisions about the overall objective and strategy of their department. It includes:
 - Marketing
 - Sales
 - Research and development
 - Customer service
 - Distribution/logistics
 - Manufacturing
 - Finance
 - Human resources
 - Administration
 - Aim: to make sure the objectives of the organization and to manage their departments to ensure the departmental objectives are achieved.
 - Employees – responsible for carrying out the work required to meet departmental objectives. – They are also the ‘face’ of the organization
 - External vendors (outsourcing) - if work can be done more efficiently by specialist external providers, then organizations outsource functions.
 - Represents a shift from the internal environment to the micro environment – results in a reduction in the level of control
 - Organizations need to manage service relationships with their external provider
 - It needs to ensure that the outsourced services remain consistent with its own objectives and do not adversely affect its market perception.
- Sales consultant/ sales officers - employees who have service roles
- During economic downturns – organizations tend to make drastic cuts to marketing budgets
- Marketing is viewed as a cost rather than an investment
- Marketing can help influence consumer behavior, set prices effectively, create value for marketing expenditure and take advantage of emerging opportunities
- Internal environment is not an isolated entity – the internal environment is affected by what happens in the less controllable external environment
- External environment – concerned with things that are outside the organization
 - The people and processes that are outside the organization and cannot be directly controlled

- Marketers can only seek to influence the external environment
- E.g. movie studios cannot prevent people from copying DVD's from friends. But they have warning about piracy on the DVD and lobby governments to introduce legal penalties for doing so.
- Outsourcing - transferring an internal function to an external provider.
- Opportunities and threats are external environmental factors.
- External environment includes:
 - o Micro environment
 - o Macro environment

Micro Environment

- Micro environment – the forces within an organizations industry that affects its ability to serve its customers and clients – target markets, partners and competitors
- Consists of customers, clients partners, and competitors
- Not directly controllable by the organization
- The organization can influence on the customers, clients, partners, competitors and other parties
- E.g. a survey by choice found that 60% of Jetstars customers were satisfies with the airlines
- In analyzing the micro environment, marketers need to consider:
 - Customer an clients
 - Partners
 - Competitors

Customer and Clients

- Marketers must understand the current and future needs and wants f their target market
- They need to:
 - Understand what their customers value now
 - Be able to identify any changes in customer performance
 - Be willing and able to respond to changes
 - Anticipate how needs and wants might change in the future
 - Be able to influence customer preferences
- E.g. the obesity epidemic (a macro-environment factor) has affected customers and clients in the micro environment
 - Growing awareness of the issue will likely make individuals exercise, eat healthy, parents will be more conscious of the food they give their children
- In the business-to-business market, marketers need to be aware of the current and future needs of their target markets
 - E.g. changes in economic conditions, such as movements in interest rates will likely have an impact on business investment and spending patterns

Partners

- Logistic firms – logistics I the term used to describe all the processes involved in distributing products; it includes storage and transport
- Financiers – provide financial services such as banking, loans and insurance and the financial systems infrastructure facilitates electronic payments transactions with partners and customers
- Advertising agencies – small businesses ted to devise their own advertisements often with the help of the publication, radio station or other medium they are advertising with. Larger businesses can hire the services of advertising agencies

- Retailers – the business from which customers purchase goods and services. Many retailers, such as corner shops and supermarkets, sell mainly products made by others. Other businesses make and retail their products, particularly small boutique businesses, service businesses and business with an online shop
- Wholesalers – an intermediary acting between the producer and the retailer to provide storage and distribution efficiencies to both
- Suppliers – provide the resources that the organization needs to make its products. Suppliers are crucial business partners and they must be monitored for continuity of supply and price
- There are many risks with working with partners – the balance of power between partners can be skewed towards one at the expense of the other
- E.g. Woolworths and Coles both sell Coca-Cola as a loss during price promotions – this is because Coca-Cola specials draw consumers to the store and these customers often then purchase other products as well – the Coca-Cola company does not need to discount their product in order to sell it to the supermarkets

Suppliers

- Marketers need to know their existing and potential suppliers' costs, availability, time frames and planned inventories to determine how they can best create value.
- Manage risks involved with suppliers
- Need to be aware of and pre-empt any problems (e.g. labor strikes and stock shortage)
- Marketers must identify, assess, monitor, and manage risks to suppliers and risks to the price of suppliers.

Competitors

- Most successful businesses are the ones which focus on making their customers happy – and doing it better than their competitors can.
- Types of competition:
 - Pure competition – numerous competitors offer undifferentiated products. Neither buyer nor seller can exercise market power.
 - E.g. markets for agricultural goods such as sugar and for financial securities such as shares are the closest real-world approximations to pure competition. In reality, pure competition does not exist
 - Monopolistic competition – numerous competitors offer products that are similar, promoting the competitors to strive to differentiate their products
 - The market for laptop computers exhibits monopolistic competition. Acer, DELL, Apple, Toshiba and many others all sell versions of essentially similar products, though the products are differentiated by color packaging, price, memory, processing speed and so on
 - Oligopoly – a small number of competitors offer similar, but somewhat differentiated products. There are significant barriers to new competitors entering the market
 - E.g. the Australian supermarket industry is an example, with Coles and Woolworths selling over 75% of all groceries in Australia. Smaller operators, such as Aldi and IGA, also exist
 - Monopoly – there is only one supplier and there are substantial, potentially insurmountable, barriers to new entrants
 - Many government services are essentially monopoly industries such as the provision of roads and rails. These are maintained as monopolies when it is considered inefficient or somehow undesirable to have competition.

- This position can change, however, with some governments choosing to open up some of their monopoly markets to private competition (e.g. electricity supply in Queensland)
 - Monopsony – the market situation where there is only one buyer
 - E.g. the federal government is the only buyer of fighter jets in Australia.
- Levels of Competition
 - Total budgeted competition
 - Consumers have limited financial resources and therefore must make choices about which products to consume and which to forgo
 - Organizations are competing against all alternative ways the consumer can engage in an exchange of value
 - E.g. a university student would like to attend a concert and the tickets are \$120. The concert is competing with all other possible uses of the student's \$120 – refilling the car, weekly rent, food and other bills, leaving it in the bank...etc.
 - Generic competition
 - Consumers often have alternative ways to meet their product needs.
 - Substitution: The same want or need can be satisfied by quite different products.
 - E.g. Sydney Buses competes with City Rail and Black and White taxis for the business of consumers needing to get from A to B. Bus, train and taxi rides are quite different, but meet the same need
 - Product competition
 - Some products are broadly similar, but have different benefits, features and prices that distinguish them from competing products.
 - E.g. soft drinks, water, alcohol, coffee, and juice are all beverages that people could purchase to drink.
 - Brand Competition
 - Some products are very similar, offering the same benefits, features and price to the same target market
 - E.g. Westpac, ANZ, the commonwealth bank, and the National Australian Bank all offer savings accounts with similar minimum balances, interest rates, internet banking facilities, distribution of ATM's, fees ...etc.

Macro Environment

- Macro-environment – the factors outside of the industry that influence the survival of the company; these factors are not directly controllable by the organization
- Can be at any geographical level including local, state, country, or regional
- Marketers can influence the macro environment, but not control. E.g. a company can lobby government to reduce the tax on wine but they cannot directly control the rate set by the government
- Failure to plan based on emerging trends can lead to business closure
- Marketers need to analyze the political, economic, sociocultural, technological and legal forces (PESTL)

Political

1. The stability of the political environment
2. The influence of government policy, laws and regulation
3. Government trade agreements such as ASEAN
4. Taxation and government rebate policies.

Economic

1. Interest rates, economic growth (gross domestic product) and consumer confidence
2. Income levels, savings, credit and spending levels
3. The level of inflation, employment and unemployment
4. Exchange rates and balance of trade.

Sociocultural

1. Religion, culture, subcultures, values, attitudes and beliefs
2. Population trends including age, household size and composition, marriage and divorce trends, places lived, ethnicity and health.

Technological

1. Whether offerings can be made more cheaply and to a better standard of quality using new technologies
2. Whether technology can be used to innovate
3. Whether distribution or communication can be improved using technology.

Legal

1. Laws including the Competition and Consumer Act, The Privacy Act, The Spam Act, The Sale of Goods Act and the Prices Surveillance Act
2. Regulations from industry bodies such as the Advertising Standards Bureau.

Political Factors

- Political forces – the influence of politics on marketing decisions
- Politics is directly relevant to the marketing organization through:
 - Lobbying for favorable treatment at the hands of government
 - Lobbying for a light-touch approach to regulation
 - The very large market that the government and its bureaucracy comprise
 - The ability of political issues to affect efforts at international marketing.
- Larger organizations, or the bodies created to represent smaller ones can engage directly in politics by seeking to influence law makers
- Organization can campaign for legal or policy changes
- Government/federal parties undertake lots of marketing activities. E.g. the federal government's Department of Foreign Affairs and Trade runs advertising campaigns and maintains its website to inform Australian travellers about law, customs and health.

Economic Forces

- Economic forces – those factors that affect how much people and organizations can spend and how they choose to spend it.
- Components of this are: income, prices, level of savings, the level of debt, and the availability of credit.
- Economic forces change quickly and dramatically
- Currency fluctuations affect e.g. the prices of exports and imports.
- Increase or decrease in interest rates can have a significant impact on both consumer and business confidence, and subsequent spending and investment patterns
- Important consideration: *Global financial crisis - made up of global forces that are beyond control of any individual organization or even government

Sociocultural Forces

- Socio cultural –the social and cultural factors that affect peoples attitudes, beliefs, behaviors, preferences, customs and lifestyles
- They comprehensively and persuasively influence the value people put on different product offerings
- Demographic characteristics influence behavior of society as a whole and the individuals within it.
- Key sociocultural factor is the natural environment – society as become more concerned about the sustainability of humankind's lifestyle.
- The natural environment includes: sustainability, corporate social responsibility, global warming, pollution, deforestation, salinity and carbon trading.

Technological forces

- Technology s constantly improving, and is used in everyday life
- It does not only change the expectations and behaviors of customers and clients, it has a huge effect o how suppliers work
- Technology although is the gadgets that make everyday activities much more easier, it is how the GPS is better than physically using a map.
- It is also a threat to marketers. E.g. Kodak, long established as a leading photography brand, suffered massive down sizing and its business was severely threatened by the advent of digital cameras in the 1900s.

Legal Forces

- Laws – legislation enacted by elected officials
- Regulations – rules made under authority delegated by legislation
- They govern what marketing organizations can and cannot legally do
- The most significant laws and regulations fall into the categories of: privacy, fair trading, consumer safety, prices, contract terms and intellectual property
- Many industries have adopted codes of self-conduct as a self-regulatory device. (Cheaper method)

Macro Environment complexity

- No factors of the Marco environment act in isolation – they are all independent and a change in one will have a consequence in another
- E.g. the development of internet technology created a need for new laws to regulate online conduct; an entire online economy developed; the provision of internet infrastructure and the regulation of internet content has become a major political issue; the nature of

relationship and how people spend their days has been fundamentally changed by the online world

- E.g. Emissions trading schemes and carbon tax proposals are generally based on the theory that the price of product that generate more carbon pollution will increase as a result of the scheme/proposal, reducing demand; where as carbon-friendly product will fall to be relatively low in price; increasing demand. – Hence in the future, products that emit larger greenhouse gasses will be hardly be able to compete in the market.

Situation Analysis and Market Planning

- Situation analysis – an analysis that involves identifying the key factors that will be used as a basis for the development of marketing strategy
- Marketing planning – an ongoing process that combines organizational objectives and situational analysis to formulate and maintain a marketing plan that moves the organization from there it currently wants to be.



- e.g. a marketer is informed by top management that their objective for the next financial year is to achieve the number 2 position in terms of market share for a product that was launched 12 months ago – since the launch, the product has achieved 17% market share. To get the second position, the marketer needs to increase market share by 10% to achieve a total of 27% market share. – If successful the marketer will receive bonuses.
- Marketers need to be able to analyze their current situation, understand not only their own business, but also their competitors business and marketing environment.

Marketing Metrics

- Marketing metrics are measures that are used to assess marketing performance.
- Different marketing metrics is used for different situations. Common marketing metrics include:
 - Reaction rate – the number of active customers at the end of a time period divided by the number of active customers at the start of that time period
 - Revenue – total income from sales or products and services
 - Share of requirements – Brand purchases as a percent of total category purchases by buyers of that brand.

$$\text{Unit share of Requirements (\%)} = \frac{\text{Brand Purchases (x)}}{\text{total category purchases by brand buyers (x)}}$$

- Op of mind awareness – first brand mentioned when questioned about the category by researchers

- Willingness to recommend – percent of survey customers who say they would recommend the brand to a friend. Should correlate with top box satisfaction but may not. The Recihheld question: “How likely is it that you would recommend (company z) to a friend or colleague?
 - Willingness to search – willingness to search (%) = percentage of customers willing to delay purchase, change stores, or reduce purchase quantities to avoid switching brands
1. E.g. Kellogg’s objective was to revamp the way it used trade promotions in its overall marketing strategy
 - In trade promotions, manufacturers such as Kellogg’s make payments called rebates o grocers to display, advertise and offer reduced prices on certain products at specific times
 - Using marketing metrics such as sales uplift from the trade promotions
 - Kellogg’s found 59% of its trade promotions events lost money for the company
 2. E.g. Telecommunications company wants to increase the profitability od its business customers can conduct an experiment where some customers are offered specially designed calling plans with unique pricing arrangements, while others are left the same
 - Uses 2 of the marketing metrics – the customers; change in spend; and the customers ‘churn rate’ (proportion of customers choosing to change to another telecommunications company)
- Marketing metric are vital for marketers as:
 - The ability to articulate a return on investment can provide a solid rationale for continued funding for successful marketing programs
 - Return on marketing investment metrics can help marketers allocate resources where they are most effective
 - Marketers can build and share a database o returns on investment that should assist in evaluating the relative effectiveness of various programs
 - In summary, marketing metrics include four key elements:
 1. Return on marketing investments
 2. Customer satisfaction
 3. Market share in targeted segments
 4. Brand equity
 - Contents of a strategic marketing plan:
 1. Executive summary
 2. Company description
 3. Strategic Focus and plan
 4. Situation analysis
 5. SWOT analysis
 6. Product market focus
 7. Marketing program
 8. Financial Data and projections
 9. Implementation plan
 10. Evaluation and control
 11. appendices



SWOT analysis

- Factors included in the situation analysis are expected to have an immediate and sufficiently large impact on the business. It must use insights from customers, partners, suppliers and other areas of the organization.
- SWOT analysis - an analysis that identifies the internal strengths and weaknesses and the external opportunities and threats in relation to an organization
- Strengths – attributes of the organization that help it achieve its objectives: competitive advantages and core competencies
- Weaknesses – attributes of the organization that hinder it in trying to achieve its objectives
- Strengths and weaknesses are directly controllable by the organization as they are internal factors
- Opportunities – external factors that are potentially helpful to achieving the organizations objectives. They are only off benefit if the organization responds effectively to them
- Threats – External factors that are potentially harmful to the organizations efforts to achieve its objectives
- Threats and Opportunities are beyond the organization direct control.
- A SWOT analysis helps marketers to identify ways to minimize the effect of weakness in their business, while maximizing their strengths.



- E.g. Given its strengths, Hungry Jack's could concentrate its marketing efforts behind core products such as its Whooper range, and core concepts such as 'burger, fries and drinks'
 - May consider adding more menu variety to cater for the light foods trend
 - Could make ready made meals for distribution through super market chains
 -

Marketing Opportunities (including redefining the market)

	Current products	New products
Current markets	<ul style="list-style-type: none"> • Increase market share • Increase product usage <p>Increase frequency of use Increase quantity used New applications</p>	<ul style="list-style-type: none"> • Product improvements • Product-line extensions • New products for same market
New markets	<ul style="list-style-type: none"> • Expand markets for existing products <p>Geographic expansion Target new segments</p>	<ul style="list-style-type: none"> • Vertical integration <p>Forward/backward integration</p> <ul style="list-style-type: none"> • Diversification into related bus (concentric diversification) • Diversification into unrelated businesses (conglomerate diversification)