

MARKETING MANAGEMENT AND STRATEGY

WEEK 2 MARKETING ENVIRONMENTAL ANALYSIS

DR KAMAU JOHN NJAU

SPRING 2024

WEEK TWO

MARKETING ENVIRONMENTAL ANALYSIS

1.1 Introduction

Welcome to week two lecture! It is my joy to have you in this class! In the last class we defined marketing management and examined the importance of marketing to different stakeholders. We went further and examined marketing philosophies and the current shifts in marketing and how they are shaping business strategies in twenty first century. In today lesson we want to pick from there and examine how environmental forces are affecting marketing strategies and plans. We will define marketing environment, review the different models of environmental analysis and conclude by new marketing realities that we have to address effectively to remain effective.

1.2 Intended Learning Outcomes

At the end of this lecture, you will be able to:

1. Define marketing environment and explain its significance to a marketer.
2. Evaluate various models of environmental analysis.
3. Analyze the changing nature of marketing environment and marketing implications
4. Explain responses to changing marketing environment.

1.3 Defining marketing environment.

There is a story on Nokia CEO when his company was being acquired by Microsoft that point to significance of understanding the environment “

“ Nokia CEO ended his speech saying this “we didn’t do anything wrong, but somehow, we lost”. During the press conference to announce NOKIA being acquired by Microsoft, Nokia CEO ended his speech saying this “we didn’t do anything wrong, but somehow, we lost”. Upon saying that, all his management team, himself included, teared sadly. Nokia has been a respectable company. They didn’t do anything wrong in their business, however, the world changed too fast. Their opponents were too powerful. They missed out on learning, they missed out on changing, and thus they lost the opportunity at hand to make it big. Not only did they miss the opportunity to earn big money, they lost their chance of survival. The message of this story is, if you don’t change, you shall be removed from the competition. It’s not wrong if you don’t want to learn new things. However, if your thoughts and mindset cannot catch up with time, you will be eliminated (https://www.reddit.com/r/business/comments/18stlhs/nokia_ceo_117)”.

This speech helps us to set pace on significant of understanding the environment in which we conduct our marketing activities. The speech makes it clear that even if we did everything right in business and ignore the changing environment then we are bound to lose. But what is a marketing environment?

The Marketing Environment consists of the actors and forces outside marketing that affect marketing management’s ability to develop and maintain a successful relationship with target customers (Kotler and Armstrong, 2006). Assael (1990) notes that the marketing environment includes those external forces that are a source of marketing opportunities and profits. The same

forces are a source of marketing threats. The term marketing environment implies the combination of internal and external factors that influence a company's operating situation, including employees, customers, management, supply and demand and business regulations (Hans, 2015). It is the sum of all external and internal factors that influence or affect a business decisions and operations. On his side Shaikh, (2010) views environment as the surrounding external objects, influences of circumstances under which someone or something exists. Similar views were held by Selznick (1948) who held the view that environment "constitute flows of information relevant to goal setting and decision-making through managerial perceptions." Duncan (1972) was of opinion that environment constitute "the totality of physical and social factors taken into consideration by a firm for making decisions. Having examined these definitions, Chattopadhyay (2015) argued that the environment of any organization is the aggregate of all conditions, events and influences that surround and affect it."

Understanding the marketing environment is significant to a business in revealing opportunities and threats, as well as the firms strengths and weaknesses (SWOT analysis). Environmental scanning is significant to marketing organizations in several ways (Hans, 2015). First, careful scanning shows sensitivity to environmental conditions and therefore the marketing organizations can build their reputation. Secondly, the firm can assess competitors' activities and strategies and therefore respond accordingly. The process also enables firms to identify their strengths and weaknesses and therefore capitalize on strengths and work on their weaknesses to remain competitive.

1.4 Sources of marketing opportunities and threats

A marketing opportunity is an area of buyer need and interest in which there is high probability that a firm can profitably satisfy that need. Opportunities can also be defined as advantages brought about by changes in the marketing environment. Threats, on the other hand, are disadvantages occasioned by changes in the marketing environment.

Assael (1990) observes that there are three general sources of marketing opportunities:

- Unmet customer needs
- Competitive weaknesses
- Longer-term environmental trends.

Kotler and Keller (2007) have identified the following as the main sources of market opportunities:

- Supplying something that is in short supply.
- Supplying an existing product or service in a new or superior way.
- Developing a totally new product.

For an opportunity to be attractive and have probability of success it should meet the following criteria:

- i. The benefits involved in the opportunity should be convincingly articulated to a defined target market (s).

- ii. The target market (s) should be located and reached with cost-effective media and trade channels.
- iii. The company should possess or have access to the critical capabilities and resources needed to deliver the customer benefits.
- iv. The company can deliver the benefits better than any actual or potential competitors.
- v. The financial rate of return meets or exceeds the company's required threshold for investment.

An environmental threat is a challenge posed by an unfavorable trend or development that leads, in the absence of defensive marketing action, to deterioration of sales or profits. Examples of threats are political instability or uncertainty, economic instability or uncertainty, natural calamities, decline in birth rates, and change in government laws. Threats should be classified according to seriousness and probability of occurrence. After identifying the major threats and opportunities facing the specific business unit, the management can characterize that business's overall attractiveness.

The goals of any firm that engage in environmental scanning as identified by Hans (2015) will include:

- Identifying changes and trends in the environment that are likely to have significant impact in their organizations
- Determine potential threats that are likely to have adverse effect in a business and therefore develop counter strategy on the same
- Enhance scenario planning among managers and staff of the organization
- Create awareness among management on converging/diverging trends etc.

1.5 Models of marketing environmental analysis

There are several models that may be used for environmental scanning:

- a) SWOT (Strength, Weakness, Opportunity, Threat) Analysis
- b) PESTEL (Political, Economic, Socio-Cultural, Technological, Legal, Environmental) Analysis
- c) Industry Analysis
- d) The UPPSALA Model
- e) CAGE Framework
- f) Structure- Conduct – Performance Model
- g) VRIO
- h) McKinsey 7S Model

We will discuss some of these models in the context of marketing management and determine how we can use them to evaluate the environment as part of strategy development.

a) PESTEL Model

The model stands for Political, Economic, Socio-Cultural, Technological, Environmental and Legal factors affecting the marketing management environment. They are presented in figure 2.2

Figure 2.2 PESTEL Model



Source: adopted from Segura, E., Belmonte, L. M., Morales, R., & Somolinos, J. A. (2023). A Strategic Analysis of Photovoltaic Energy Projects: The Case Study of Spain.

This is the most popular model for analyzing marketing management environment. Marketers will consider political, economic, social, technological, environmental, and legal forces impacts in the business and how to respond to them.

- a) The political factor will constitute political conditions and government activities. The marketer is considered with political ideologies (democracy, communism) elections, civil unrest, public opinion, regulation, subsidization, taxation, and economic policies among others.
- b) Economic factors will have a great impact on marketing activities. These will include currency exchange rates, levels of inflation, unemployment, and interest rates. Other economic factors include government fiscal and monetary policies, consumer confidence, minimum wages, income distribution, disposable income economic growth and global economic trends. All these must be monitored by marketing managers as they will determine how much they can sell within a particular economy.
- c) The social-cultural environment will constitute demographics of a society, the people's lifestyles, and society values. Average age, literacy levels, religion, gender diversity, societal customs and population size will all go a long way in determining what can/cannot

be consumed in certain market segments. Other social-cultural factors will constitute diversion and inclusion, shifts in values and attitudes, health and wellness trends, social media influences and rural-urban migration trends.

- d) The technological environment is one of the greatest influences in marketing management decisions. The marketer must consider the increase of computers and new software's, mobile technology, the Internet, and all communication devices that have greatly influenced how products are made and consumed. Digitalization and Online Presence, Data Analytics and Big Data, Artificial Intelligence (AI), Marketing Automation Platforms, Augmented Reality (AR) and Virtual Reality (VR) Mobile Technology and App, Internet of Things (IoT), Blockchain Technology and E-commerce Platforms and Marketplaces are some of current technological trends that marketer can make use of to increase their chances of success in global markets.
- e) In the recent past environmental concerns have become a great concern for consumers and consequently marketing managers. These forces will include, sustainability concerns, green marketing and eco-labeling, circular economy initiatives, corporate social responsibility (csr, regulatory compliance, supply chain sustainability, energy efficiency and renewable energy, waste reduction and packaging innovation, climate resilience and adaptation, environmental activism and consumer advocacy. By recognizing and responding to these environmental trends, marketing managers can develop strategies that align with consumer preferences, regulatory requirements, and sustainability goals, ultimately driving business success while promoting environmental stewardship.
- f) The legal environment will constitute laws and regulations that govern marketing and business activities within certain marketing segments. The legal factors will constitute: Consumer Protection Laws, Advertising Regulations, Intellectual Property Rights, Data Privacy Regulations, Antitrust Laws, Product Liability Laws, Contract Law, E-commerce Regulations, Environmental Regulations, and International Trade Laws. By addressing these legal factors and ensuring compliance with applicable laws and regulations, marketing managers can mitigate legal risks, build trust with consumers, and maintain ethical business practices while achieving marketing objectives and driving business growth.

b) SWOT analysis model

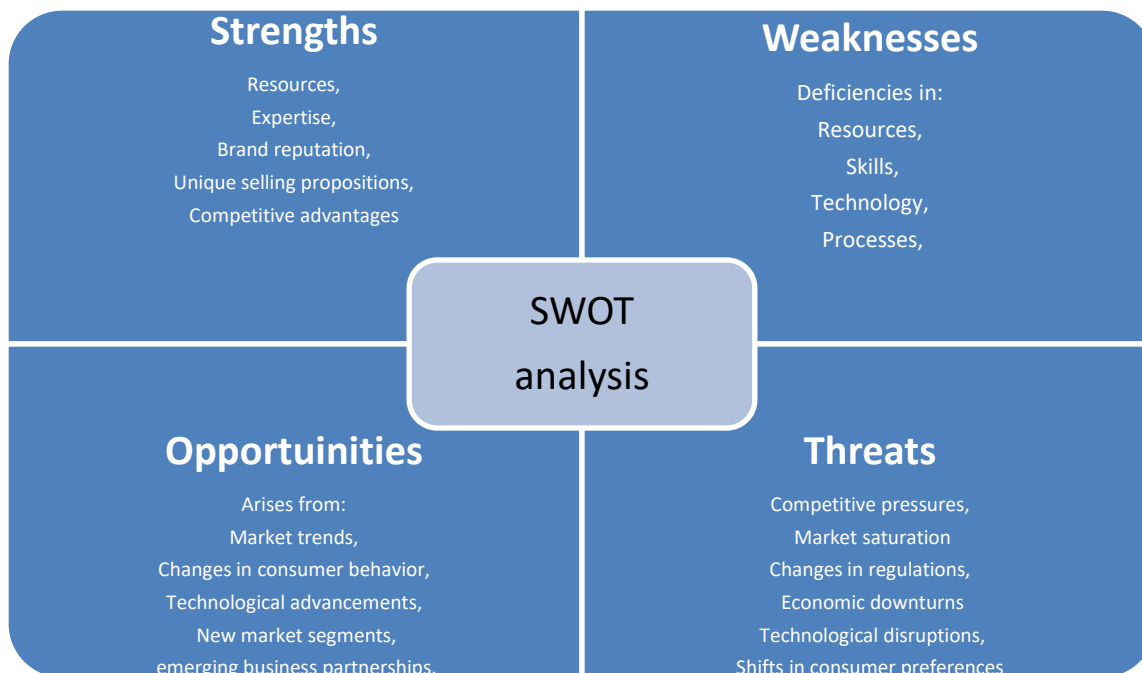
This model focuses on strengths and weaknesses of a business and also examine the opportunities and threats presented by the environment. Figure 2.1 is a presentation of the same. The four components of this model are presented below.

1. Strengths: These are internal factors that represent the advantages or capabilities of the business. Strengths can include resources, expertise, brand reputation, unique selling propositions, and competitive advantages that give the business an edge over its competitors.

2. **Weaknesses:** These are internal factors that represent the limitations or challenges within the business. Weaknesses can include deficiencies in resources, skills, technology, processes, or areas where the business lags behind its competitors. Identifying weaknesses helps businesses address areas for improvement and minimize risks.
3. **Opportunities:** These are external factors that represent potential avenues for growth or expansion available to the business. Opportunities can arise from market trends, changes in consumer behavior, technological advancements, new market segments, or emerging business partnerships. Identifying opportunities allows businesses to capitalize on favorable conditions and pursue growth strategies.
4. **Threats:** These are external factors that pose risks or challenges to the business. Threats can include competitive pressures, market saturation, changes in regulations, economic downturns, technological disruptions, or shifts in consumer preferences. Identifying threats helps businesses anticipate risks and develop strategies to mitigate their impact.

SWOT analysis provides a comprehensive overview of the internal and external factors affecting a business, enabling decision-makers to develop strategies that leverage strengths, address weaknesses, capitalize on opportunities, and mitigate threats. It helps businesses align their resources and capabilities with external market conditions to achieve their strategic objectives effectively.

Figure 2.1 SWOT analysis model



Source: Author 2024

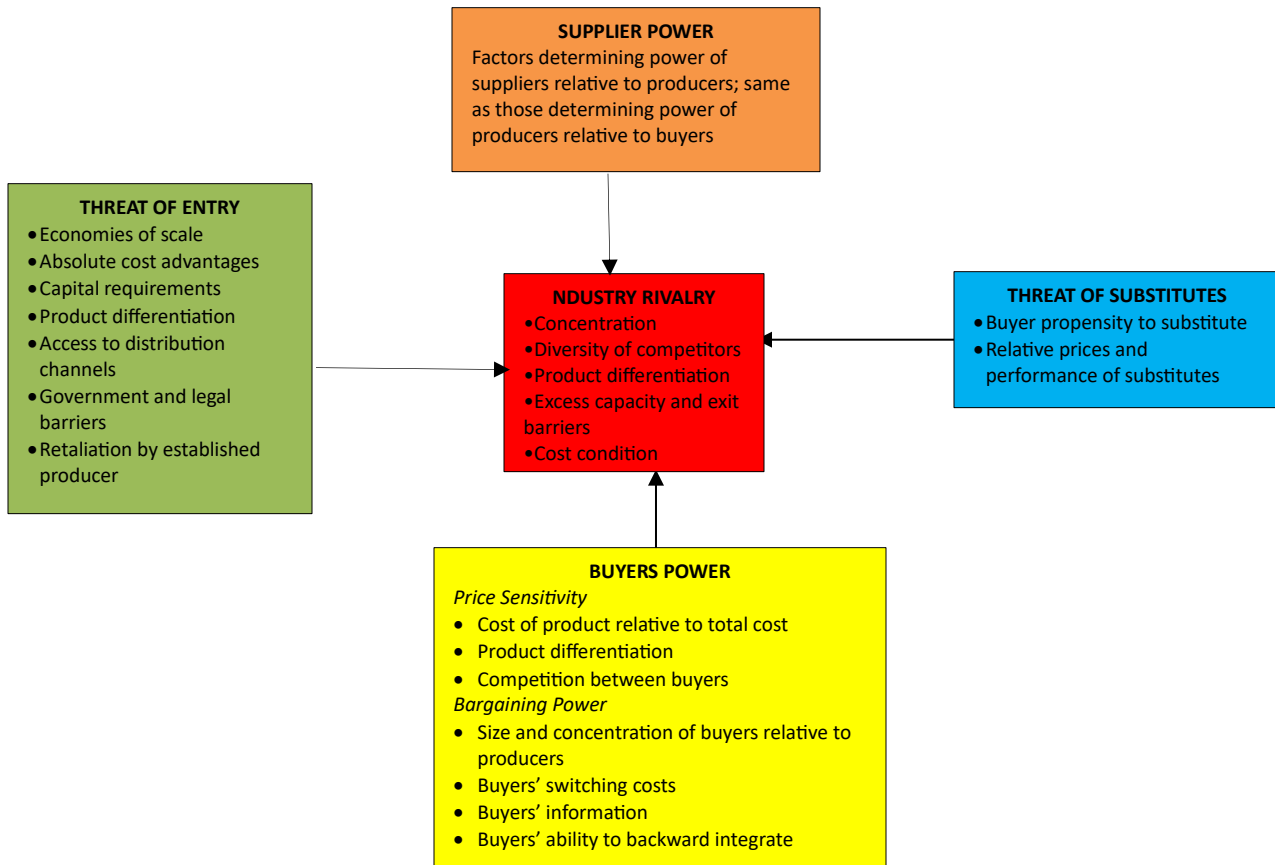
c) Industry analysis model

This model uses the Porters five forces of competition to determine the industry attractiveness and potential for growth. The model is presented in figure 2.3 below. Porter's Five Forces model is a framework used to analyze the competitive dynamics of an industry. Developed by Michael Porter, this model identifies five key forces that shape the level of competition and profitability within an industry.

- a) Threat of New Entrants: This force assesses the likelihood of new competitors entering the market. Factors such as barriers to entry (e.g., high capital requirements, economies of scale, brand loyalty), government regulations, and access to distribution channels influence the threat of new entrants. For marketing management, a high threat of new entrants may necessitate strategies to strengthen brand loyalty, differentiate products, or establish barriers to entry through exclusive partnerships or proprietary technologies.
- b) Bargaining Power of Buyers: This force examines the influence that buyers/customers have on the industry. Factors such as buyer concentration, price sensitivity, switching costs, and availability of substitutes affect the bargaining power of buyers. In marketing management, understanding buyer behavior and preferences becomes crucial for developing pricing strategies, product offerings, and customer engagement initiatives to maintain or increase customer loyalty and satisfaction.
- c) Bargaining Power of Suppliers: This force assesses the influence of suppliers on the industry. Factors such as supplier concentration, availability of substitutes, and switching costs determine the bargaining power of suppliers. For marketing management, managing supplier relationships, negotiating favorable terms, and diversifying the supplier base can mitigate risks associated with supplier power and ensure a stable supply chain.
- d) Threat of Substitute Products or Services: This force examines the extent to which alternative products or services can fulfill the same customer needs. Factors such as the availability of substitutes, price-performance trade-offs, and switching costs impact the threat of substitutes. Marketing managers must differentiate their offerings, communicate unique value propositions, and build brand loyalty to mitigate the threat of substitutes and maintain market share.
- e) Intensity of Competitive Rivalry: This force evaluates the level of competition among existing competitors within the industry. Factors such as industry growth rate, market concentration, differentiation, and exit barriers influence competitive rivalry. Marketing managers must monitor competitive actions, anticipate market shifts, and continuously innovate to stay ahead of competitors and maintain or enhance their market position.

Overall, Porter's Five Forces model provides a structured framework for understanding the competitive forces within an industry, enabling marketing managers to identify strategic opportunities, anticipate threats, and develop effective marketing strategies to navigate the competitive landscape and achieve business objectives.

Figure 2.3 Porter five forces framework for design industry analysis



Source: adopted from: Grant R.M (2018) *Contemporary Strategy Analysis, 10th Edition Wiley* ISBN: 9781119495727

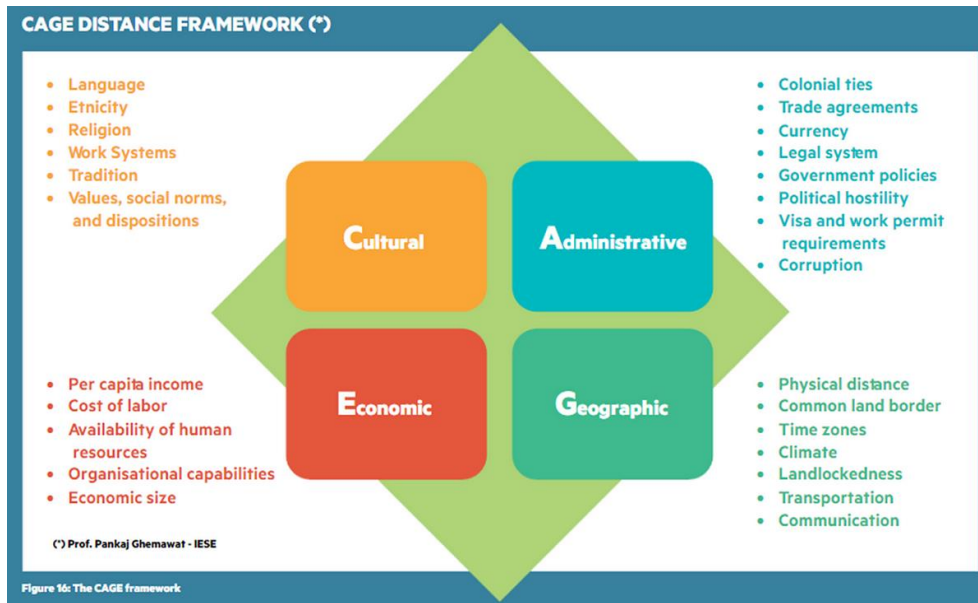
d) CAGE framework.

The CAGE Distance Model is a framework for understanding and analyzing the differences between countries in terms of their culture, administrative, geographic, and economic distances. The model was developed by scholars Pankaj Ghemawat and Kenichi Ohmae in the early 2000s, It provides a structured way of thinking about the challenges and opportunities that arise when businesses and organizations operate across borders. The acronym CAGE stands for four types of distance that can affect business operations:

- Cultural distance: Refers to differences in language, religion, values, norms, and customs between countries.
- Administrative distance: Refers to differences in governance, legal systems, and regulations between countries.
- Geographic distance: Refers to physical distance, time zones, and climate differences between countries.

- Economic distance: Refers to differences in wealth, income levels, infrastructure, and technology between countries.

Figure 2.4 Distance framework



Source: adopted from Pankaj Ghemawat (2011), *Global Prosperity and How to Achieve it*, Harvard Business Review Press, pp.54-60

e) VRIO model

This model was developed in 1997 by Barney. The VRIO model is a framework used in strategic management to evaluate the competitive advantage of a resource or capability within a company. The acronym stands for: Value, Rarity, Imitability, and organization.

- **Value:** This refers to the ability of the resource or capability to add value to the company's products or services. It assesses whether the resource helps the company to exploit opportunities or mitigate threats. Does the resource/capability enable the firm exploit opportunities/neutralize threats?
- **Rarity:** Rarity signifies how uncommon or scarce the resource or capability is within the industry. If a resource is rare, it can provide a competitive advantage because competitors may not possess it. Is the resource common in the market?
- **Imitability:** This aspect evaluates how easy it is for competitors to imitate or replicate the resource or capability. Resources that are difficult to replicate can lead to sustained competitive advantage. How difficult is it for competitors to replicate the resource?
- **Organization:** Organization refers to the company's ability to leverage the resource or capability effectively. It assesses whether the company has the necessary organizational

structure, processes, and culture to exploit the resource fully. How organized is the firm to utilize the resource for competitive advantage?

By assessing a resource or capability against these four dimensions, companies can determine whether it provides a sustainable competitive advantage. If a resource or capability scores positively on all four dimensions (i.e., it is valuable, rare, inimitable, and well-organized), it is likely to contribute significantly to the company's competitive position.

1.6 Responses to changing marketing environment

In response to this rapidly changing environment companies have restructured their business and marketing practices in a number of ways (Kotler & Kelly, 2016). Table 2.1 is a brief summary of these responses.

Table 2.1 Responses to changing marketing environment

Response	Explanation
Reengineering	Reengineering refers to the fundamental rethinking and redesign of business processes to achieve dramatic improvements in critical aspects such as cost, quality, service, and speed. Appointing teams to manage customer value building processes and breaking down walls between departments.
Outsourcing	Outsourcing is the practice of contracting out certain business functions or processes to external third-party providers rather than handling them internally. Great willingness to buy more goods and services from outside domestic or foreign vendors.
Benchmarking	Benchmarking involves comparing one's own processes, products, or services against those of competitors or industry leaders to identify best practices and areas for improvement. Studying “best practice companies” to improve performance.
Customer partnering	Customer partnering involves establishing collaborative relationships with customers to better understand their needs, preferences, and challenges. Working more closely with customers to add value to their operations.
Supplier partnering	Supplier partnering refers to developing strategic alliances and collaborative relationships with suppliers. Increased partnering with fewer but better value adding suppliers.
Merging	Merging refers to the process of combining two or more companies into a single entity. Acquiring or merging with firms in the same or complementary industries to gain the economies of scale and scope.
Globalization	Globalizing involves expanding business operations and activities beyond domestic borders to international markets. Increased effort to “think global” and “act local”.

Flattening	Flattening refers to the trend of reducing hierarchical levels and layers of management within an organization. Reducing the number of original levels to get closer to the customers.
Focusing	Focusing involves concentrating resources and efforts on core competencies or strategic priorities. Determining the most profitable business and customers and focusing on them.
Accelerating	Accelerating refers to the process of increasing the speed or pace of business activities, processes, or growth initiatives. Designing the organization and setting up processes to respond more quickly to changes in the environment
Empowering	Empowering involves delegating authority, decision-making power, and responsibility to employees at all levels of the organization. Encouraging and empowering personnel to produce more ideas and take more initiative.

Source: adopted from Kotler & Kelly, marketing management 2016.

1.7 Review Questions

1. Explain the concept of the marketing environment as outlined by various scholars such as Kotler, Armstrong, Assael, and others. How do these definitions converge and diverge, and what implications do they have for marketing management strategies?
2. Discuss the significance of environmental scanning for marketing organizations according to Hans (2015). How does environmental scanning help firms identify opportunities, threats, strengths, and weaknesses? Provide examples to illustrate your points.
3. Compare and contrast the sources of marketing opportunities and threats as identified by Assael (1990) and Kotler & Keller (2007). How do these sources inform strategic decision-making in marketing management? Provide real-world examples to support your analysis.
4. Analyze the PESTEL model as a tool for environmental analysis in marketing management. How do political, economic, socio-cultural, technological, environmental, and legal factors influence marketing strategies? Illustrate your answer with case studies or current market trends.
5. Evaluate the relevance of the SWOT analysis model in contemporary marketing management. How does this model help organizations leverage strengths, address weaknesses, capitalize on opportunities, and mitigate threats in the marketing environment? Provide examples of successful implementation of SWOT analysis in real-world businesses.

Self-test

1. What does the marketing environment consist of according to Kotler and Armstrong (2006)?
 - a) Only external factors affecting marketing management.
 - b) Only internal factors affecting marketing management.
 - c) Both external and internal factors affecting marketing management
 - d) Only customer-related factors affecting marketing management.
2. According to Assael (1990), what are the three general sources of marketing opportunities?

- a) Customer satisfaction, technological advancements, and market trends
 - b) Competitive strengths, consumer preferences, and political stability
 - c) Unmet customer needs, competitive weaknesses, and longer-term environmental trends
 - d) Supply chain efficiency, pricing strategies, and brand loyalty.
3. Which model is specifically designed to analyze the political, economic, socio-cultural, technological, environmental, and legal factors affecting marketing management?
 - a) SWOT analysis model
 - b) VRIO model
 - c) PESTEL model
 - d) CAGE framework.
 4. What does the CAGE framework analyze in terms of differences between countries?
 - a) Cultural, administrative, geographic, and economic distances
 - b) Consumer preferences, market trends, and regulatory environments
 - c) Supplier relationships, competitive landscapes, and technological advancements
 - d) Brand loyalty, pricing strategies, and distribution channels
 5. What does the VRIO model assess in evaluating a company's competitive advantage?
 - a) Value, rarity, imitation, organization
 - b) Velocity, resilience, innovation, optimization
 - c) Visibility, reliability, integrity, organization
 - d) Validation, reputation, integration, optimization
 6. Which response to the changing marketing environment involves comparing a company's processes, products, or services against those of competitors or industry leaders?
 - a) Reengineering
 - b) Outsourcing
 - c) Benchmarking
 - d) Customer partnering
 7. What does the term "flattening" refer to in the context of responses to changing marketing environments?
 - a) Expanding business operations to international markets
 - b) Reducing hierarchical levels and layers of management
 - c) Concentrating resources and efforts on core competencies
 - d) Delegating authority and decision-making power to employees
 8. According to Kotler & Kelly (2016), which response to the changing marketing environment involves expanding business operations beyond domestic borders?
 - a) Reengineering
 - b) Outsourcing
 - c) Merging
 - d) Globalization
 9. How do marketing opportunities differ from marketing threats?
 - a) Opportunities arise from favorable trends, while threats stem from unfavorable trends.
 - b) Opportunities are external factors, while threats are internal factors.
 - c) Opportunities lead to profit, while threats lead to loss.
 - d) Opportunities are short-term, while threats are long-term.

10. Which model assesses the level of competition and profitability within an industry by examining factors such as the threat of new entrants and the bargaining power of buyers?
- a) SWOT analysis model
 - b) Industry analysis model
 - c) PESTEL model
 - d) VRIO model

ANSWERS

1. Both external and internal factors affecting marketing management
2. Unmet customer needs, competitive weaknesses, and longer-term environmental trends
3. PESTEL model
4. Cultural, administrative, geographic, and economic distances
5. Value, rarity, imitation, organization
6. Benchmarking
7. Reducing hierarchical levels and layers of management
8. Globalization
9. Opportunities arise from favorable trends, while threats stem from unfavorable trends.
10. Industry analysis model

1.8 Marketing Management Project

Part 1

Identify a business in your country and conduct an environmental analysis with an aim of developing a marketing strategy. Use one of the models discussed in this lesson. You will present the same in class in the next lesson.

References

- Assael, H., (1990), Consumer Behavior and Marketing Action. Boston, PWS-KENT
- Barney JB (1997). Gaining and Sustaining Competitive Advantage. Addison-Wesley: Reading, MA
- Chattopadhyay C. (2015) Business Environment: A Note. International Research Journal of Engineering and Technology (IRJET).
- Duncan, R. (1972). 'Characteristics of organizational environments and perceived environmental uncertainty', Administrative Science Quarterly, 17, pp. 313-32

- Grant R.M (2018) Contemporary Strategy Analysis, 10th Edition Wiley ISBN: 9781119495727
- Hans V. B (2015) Business Environment – Conceptual Framework and Policies. ResearchGate.
- Kotler P & Keller K L (2007) Marketing Management 12th Edition Prentice-Hall of India
- Kotler P & Keller K.L (2016), Marketing management 16th Edition Pearson
- Kotler P. & Armstrong G. (2006). Principles of marketing, (11th Ed.) Upper Saddle River: New Jersey: Prentice-Hall.
- Nokia CEO Speech Retrieved from : <https://www.reddit.com/r/business/comments/> on 26 March 26, 2024
- Pankaj Ghemawat (2011), Global Prosperity and How to Achieve it,, Harvard Business Review Press,pp.54-60
- Segura, E., Belmonte, L. M., Morales, R., & Somolinos, J. A. (2023). A Strategic Analysis of Photovoltaic Energy Projects: The Case Study of Spain. Sustainability (Switzerland), 15(16). <https://doi.org/10.3390/su151612316>
- Selznick, P. (1948). Foundations of the Theory of Organization. American Sociological Review, 13(1), 25–35. <https://doi.org/10.2307/2086752>
- Shaikh, S (2010) Business Environment for Universities and Autonomous colleges of Odisha, Pearson Education inc.