Chapter Summaries

# Chapter 2 – Environmental and internal analysis: marketing information & intelligence

## Introduction

Over the past two decades, marketing and strategy researchers have improved the conceptual and practical understanding of the role of marketing in enabling organizations to create and sustain competitive advantage (Morgan, 2012). At the heart of environmental and internal analysis is strategic analysis. This is the first stage of the three stages of the strategic marketing management (SMM) process which involves: *strategic analysis*, *strategic choices,* and *strategy implementation*. **Strategic (position) analysis** is concerned with identifying the impact on strategy of the external environment, an organization’s strategic capability, and the expectations and influence of stakeholders. **Strategic choices** involve the options for strategy in terms of both the directions in which strategy might move and the methods by which strategy might be pursued. **Strategy implementation** is concerned with ensuring that chosen strategies are put into action. It is the translation of strategy into actions through organizational structure and design, resource planning, and the management of strategic change. Morgan et al (2019) have presented a new model of marketing strategy development including three areas. ***Inputs*** to marketing strategy including resources such as market knowledge, brand portfolios, financial resources, etc. and capabilities such as NPD, CRM, etc. ***Outputs*** of marketing strategy including customer mind-set and behaviour outcomes and marketplace and economics performance. ***Environmental factors*** distinct from marketing strategy but that may impact marketing strategy phenomena and the relationships with other phenomena including internal factors such as organizational culture, size, etc. and external factors such as market characteristics, technology turbulence, competitive intensity, etc.

## The marketing environment and its components

The firm’s marketing environment involves two distinct levels: (1) the *internal environment*, consisting of variables within the organization, but not always within the long-run control of top management, and (2) the *external environment,* consisting of variables outside the organization and not typically within its short-run control. The external environment can be further divided into two sub-environments: (a) the ‘*macro*’ or remote environment, and (b) the ‘*micro*’ or competitive environment. The potential output of analysing the external environment is the detection of opportunities and threats, both present and potential, which face the organization. While the key output of analysing the internal environment is the identification of strengths and weaknesses that exist within the organization’s culture and structure.

**Strategic analysis of the external marketing environment**

To be successful over time an organization must be “in tune” with its external environment. It is not just a matter of absolute performance, but depends also on how well an organization does relative to competitors. This is the essence of strategic analysis, which entails an organization anticipating the moves of its rivals (Rosenzweig, 2013). Marketers have to realize that the forces at work in the external environment can turn on a dime; nothing is stable and nothing is sacred. Successful marketing practice mandates regular scanning and analysis for opportunities in the external environment (Crittenden and Crittenden, 2012). **Environmental scanning** is the process of collecting information about the forces and trends in the environment. Scanning involves observation and perusal of secondary sources, such as business, trade, government, and general interest publications. **Environmental analysis** is the process of assessing and interpreting the information gathered through market intelligence and environmental scanning. Organizations usually develop their strategies on the bases of environmental analysis and scanning to find the **‘strategic fit’** between what the environment wants and what the organization has to offer, as well as between what the organization needs and what the environment can provide.

## The ‘macro’ environment

The variables in the macro environment are enormous and can be clustered in various ways, the most notable being the PESTLE model (political, economic, socio-cultural, technological, legal, and environment). In responding to these variables, organizations may accept environmental forces as uncontrollable and remain passive and reactive towards this environment, or, if they believe that environmental forces can be shaped, they may adopt a more proactive direction.

# Environmental uncertainty and scenario analysis

Managers have to make strategic decisions with varying degrees of uncertainty and incompleteness of information about the future of the organization. One option for dealing with the future is anticipatory action based on the awareness of possible futures. This is the essence of scenario analysis which enables a firm to evaluate the effect of change in multiple variables, and the uncertainties that each hold, thereby allowing the firm to consider strategic actions (Johnston et al., 2008). Scenario analysis provides a conceptual framework by which organizations can understand the external environment as it unfolds, accept the uncertainty as given, and use it to provide a description of two or more future scenarios. By writing a few market scenarios and evaluating their likelihood and impact, scenario analysis can be a powerful strategic tool that deals with complex environments.

**The ‘micro’ competitive environment**

The ‘micro’ environmentincludes those forces or groups that directly affect, and are affected by, an organization’s major operations. Many analytical models/frameworks have been suggested for analysing the micro ‘industry’ environment. Porter’s five forces model is the most notable model for analysing the micro ‘competitive’ environment, which takes full account of the competitive forces that shape the industry structure. Porter (1980) states that the state of competition in an industry depends on five basic competitive forces, the collective strength of these forces determining the ultimate profit potential of the industry and the ability of firms in an industry to earn rates of return on investment in excess of the cost of capital.

Another central aspect of micro analysis is competitor analysis. The objectives of competitor analysis are twofold. First, a company may have to develop a profile of the nature and success of the likely strategy changes each competitor in the market might make. Secondly, the company may also have to anticipate other competitors’ probable response to the range of feasible strategic moves. Competitor analysis is a set of activities which includes:

* identifying the company’s competitors
* understanding competitors’ objectives
* identifying competitors’ strategies
* assessing competitors’ strengths and weaknesses
* estimating competitors’ reactions
* selecting competitors to attack and those to avoid

**Competitive intelligence**

In order to undertake competitor analysis, a company needs to gather relevant information that should be collected, organized, interpreted, disseminated, and used in a systematic way. The marketing intelligence system first identifies the vital types of competitive information and the best sources of this information. The system then continuously collects the data from the field. The information should be checked for validity and reliability before key information is communicated to relevant decision makers. It is worth to note that social media has been recently used by many organizations as a key digital tool for monitoring and gathering information about competitors, their brands, strengths and weaknesses, and strategic directions.

**Market research and customer analysis**

Customer analysis is an integral part of the micro environmental analysis. Sometimes it is perceived to be of more import than analysing competitors, especially in markets where consumer bargaining power is relatively high. To undertake customer analysis an organization needs to systematically gather what is often a vast amount and of information, organize it, and then place it in a logical context. This is the typical strategic use of market research. The effective strategic use of market research depends on many factors, of which is the quality of data sets and the quality of processing them. This is why the new term of big data came to the scene recently. **‘Big data’** is a term for the collection of data sets so large and complex that traditional data processing applications cannot handle it.

**Strategic analysis of the internal environment**

The internal appraisal has a pivotal role in formulating marketing strategies and plans with which a firm can trace its success. Differences in performance among companies may be best explained not through differences in industry structure identified by external analysis, but through differences in the firm’s assets and resources (Hunt and Derozier, 2004). The key output of analysing the internal environment is the identification of strengths and weaknesses that exist within the organisation’s culture and structure. There are various models/approaches that can be used for analysing the firm’s international environment. These include: resource-based approach to internal analysis, value chain approach to internal analysis, evaluation of functional areas, and performance evaluation approach to internal analysis.

The **resource-based view** is a well-known approach for strategy development. This approach illustrates how a firm’s resources and capabilities can create a competitive advantage, which will be the base for the organization’s strategic directions in its target market. Porter’s **value chain** (1985) is another way for examining the nature and extent of the synergies, if any, among the internal activities of a firm. According to Porter, every firm is a collection of activities that are performed to design, produce, promote, deliver, and support its products in the market.

A third approach is **functional areas analysis** through which a company’s skills and resources can be organized into a competence profile according to the typical business functions of marketing, finance, R&D, and productions, etc. Another approach is **performance analysis** that aims to evaluate the performance of a business. The most notable classical work is the PIMS program (*Profit Impact of Market Strategy*) that uses financial measures. Other non-financial measures can provide better analysis of business health. Kaplan and Norton (1992, 1996) introduced a comprehensive method that evaluates a company’s performance, namely ‘***the balanced scorecard***’. This method recognizes four perspectives by which to integrate the financial and non-financial measures of a company’s performance: the *financial perspective*, the *customer perspective*, the *internal business perspective,* and the *innovation and learning perspective*.

**Strategic ‘fit’ – the conclusion of external and internal strategic analysis**

A successful strategy arises from a firm’s strategic analysis of emerging opportunities and threats in the external environment while taking into account the firm’s internal strengths and weaknesses. For this purpose, the organization’s strategic analysis of the ‘remote’ and ‘competitive’ environments can be concluded by developing what is known as an ‘environmental impact matrix’ in which major opportunities and threats are identified, and their potential impacts are assessed and weighted. Similar to the conclusion of the organization’s strategic analysis of the external environment, the analysis of the organization’s internal environment can also be concluded by developing what is known as a ‘strategic capability profile’ in which the potential strengths and weaknesses of the organizational resources and capabilities are identified, assessed, and weighted.

SWOT analysis (looking at strengths, weaknesses, opportunities, and threats) is usually suggested as a systematic way on integrating internal analysis and external analysis to find a ‘strategic fit’ between what the environment wants and what the organization has to offer, as well as between what the organization needs and what the environment can provide. Although SWOT analysis is particularly a well-known model in strategic analysis, it has been subject to several criticisms because of its apparent limitations. Weihrich (1982) proposed a SWOT (TOWS) matrix which, while making use of the same inputs as the SWOT matrix, recognizes them and integrates them more fully into the strategic management process.

# Data-driven strategic decisions

The focus to end this chapter is on the key digital developments affecting environment analysis. These have been called the ‘three Ds’; **Digital**, **Data-Rich,** and **Developing Markets** (Sridhar and Fang, 2019). The first, **‘Digital’**, digital marketing strategy deals with firms’ judicious use of digital resources to create differentiated and sustainable value for customers. The second, **‘Data-Rich’**, digital marketing has made available to researchers unprecedented data on firm and customer behaviour. The third, **‘Developing Markets’**, the issue of marketing strategy in digital and data-rich context is particularly relevant in developing markets such as BRICs countries.

## How technology is reshaping marketing strategy

The growing impact of digitalization and the mass adoption of digital and social media platforms have forced many organizations to re-think their marketing strategies to address a new set of challenges brought forward by the digital age. Traditionally, customer analysis has been undertaken via forms of desk and market research. Recently, many organizations have shifted their attention towards social media networks and used them as valuable platforms on which they can monitor, evaluate, and analyse consumer behaviour. Through social networking, companies can not only monitor, but also interact with consumers.

# Conclusion

The formulation of marketing strategy is the development of long-range plans for the effective management of the major factors and key trends in the organization’s marketing environment. Therefore, development of a marketing strategy should be based on a thorough understanding and effective use of environmental opportunities and threats while taking into account the organization’s strengths and weaknesses.

**Summary**

This chapter discussed in details ‘strategic analysis’ as part of the strategic marketing management process. Strategic analysis is concerned with understanding the strategic position of the organization in terms of its external environment, its internal resources and competencies, and the expectations and influence of stakeholders including competitors and customers. The chapter was concluded with a great discussion of how technology and digitalization is reshaping marketing strategy development, and the various forms of data-driven strategic decisions.