Marketing Analysis Toolkit: Situation Analysis

Introduction

Before managers can begin to formulate marketing strategies for their businesses, they must have a strong understanding of the internal and external marketing environments in which they are operating. The marketing environment offers many opportunities for businesses, but it also imposes many constraints. In this toolkit, we present three methods for collecting and analyzing information about the internal and external marketing environments that firms face: 5 C’s Analysis, Porter’s Five Forces Analysis, and SWOT Analysis. These analyses help managers monitor and understand key macro- and micro-environmental factors that affect their firms’ ability to earn profits.

Using 5 C’s Analysis to assess the situation

A 5 C’s analysis outlines five dimensions of the marketing environment that are crucial for marketing managers to understand before they begin to make decisions. The dimensions analyzed in the 5 C’s -- customers, context, company, collaborators/complementers, and competitors -- allow managers to understand themselves, their customers, and the external players and forces that affect their business. A current and dynamic understanding of the 5 C’s sets a strong foundation for marketing decision making.

Analyzing Customers

Customer analysis involves two primary activities: understanding the consumer needs driving consumption and understanding the decision making process consumers undergo to fulfill their needs.

Needs Analysis

Customer analysis involves outlining potential customers who have a need for the product and understanding their needs and preferences. Analysis begins with understanding the utilitarian, symbolic, emotional, and social needs the product fulfills in the lives of consumers. What functional needs does the product fill? What job(s) does it do to make consumers’ lives easier or better? Remember that consumers often buy products not only for what they do, but for what they mean. What meaning does the product bring to the consumers lives? In what rituals or traditions does the product play an important role? How does it help consumers build their identities? How does the
product connect consumers to others in the social world? How does it help consumers fulfill their important social roles? How does the product make consumers feel? What emotions are associated with the purchase and consumption of the product? Analyzing the direct and indirect benefits consumers receive from using the product, as well as the pain, unhappiness or other negative effects the product helps consumers ward off, gives insight into how much consumers will value the product. When conducting a needs analysis, it is important to remember to include rational and seemingly irrational needs, and to remember that consumers may not have direct access to their subconscious or unconscious needs. Alternative market research methods may be required to probe consumers’ unconscious minds.

Important input into segmentation and targeting decisions comes from understanding the distribution of needs and preferences across the total market. Do consumers share similar needs and have homogenous preferences or do needs differ and are preferences diffused? Are there clusters of customers who share the same need and show similar preferences? Are consumers’ needs currently being met in the marketplace, and if so, by what and by whom? How satisfied are consumers with their current solutions? What needs are still unfulfilled by existing products?

**Decision Making Process Analysis**

Customer analysis continues with an understanding of how consumers come to realize they have a need and the process by which they seek to fulfill that need. Consumers’ decision-making processes can be analyzed as a series of five stages (or subprocesses). The first stage is **Problem Recognition**. Analysis of this stage involves understanding when, where, and how consumers’ needs arise and the situational, social, or marketing triggers that cause consumers to realize they have a problem that needs to be solved. The second stage is **Information Search**. Analysis includes understanding the sources of information consumers use to learn more about the available options. Understanding social influences in this stage is crucial. Who do consumers rely upon for advice (friends, family, Internet ratings, media, celebrities)? What social reference groups do consumers benchmark against? Who are the opinion leaders who matter to consumers? What marketing activities inform their search (corporate website, salesperson, point of purchase material, advertising)?

The third stage is **Evaluation of Alternatives**. Analysis includes understanding which attributes or features of the product are most important to consumers when choosing among brands or products. How do consumers make their decisions? What factors influence the choice? How do consumers weight the importance of different attributes of the product in their decisions? Are choices made cognitively or emotionally? The fourth stage is the **Purchase Decision** itself. Where do consumers go to purchase the product and what situational and social influences do they encounter during the purchase? What happens in the store (or physical place of purchase) to encourage or dissuade the purchase? The final stage is **Post Purchase Evaluation**. How do consumers assess whether they have purchased the right product? How is the product used in everyday life? Does the purchaser use the product or is it given to someone else? How satisfied are consumers with the product after consumption? What regrets or doubts do consumers have after consumption?

**Analyzing the Context**

The external context plays a major role in setting the stage for business opportunities. Marketing managers need to understand how factors in the world around them impact their business model. Analyzing the context involves analyzing the six external environments that impact business.
Demographic Environment

Analyzing the demographic environment includes understanding the current state and future direction of the population in a market. Demographic analysis includes interpreting census and other demographic data to discern trends that may affect business. Think about how the total population can be broken down into smaller demographic segments by age, generational cohort, family structure, race, ethnicity, social class, gender, educational levels, geographical location, etc. What demographic segments exist in the population? How big is each segment and which ones are growing and shrinking? How are particular segments different from others and how managerially significant are these differences?

Economic Environment

Analyzing the economic environment includes understanding the macroeconomic and microeconomic conditions facing consumers in the market. Is the market’s economy strong or weak? How is consumer confidence changing over time? What economic factors, such as unemployment, inflation, and debt levels, are affecting consumer confidence? What is the income dispersion in the marketplace? Which segments have enough purchasing power to purchase the product today and which are likely to in the future?

Socio-cultural Environment

Analyzing the socio-cultural environment includes understanding prevailing worldviews, political and social ideologies, value systems, traditions and rituals, and the fashion and taste system. Which ideas, tastes, and practices are in fashion and which are not? Which of these are likely to be prevailing trends and which are likely to be passing fads? What is valued in the culture? What is valued in the subcultures that are included in the target market?

Political/Legal Environment

Analyzing the political/legal environment is important to make sure the company is operating within the law and common business practice. However, managers also want to understand how laws and political practices can enable growth or hinder the company’s potential in various markets. What are the laws governing the industry and how do they vary across countries? How active are consumer advocacy and safety organizations in each market in which the firm competes? What changes are on the horizon given shifting political powers?

Technological Environment

Analyzing the technological environment includes understanding how technology is affecting consumers and their purchasing needs and habits. How is technology changing the types of products that consumers desire? How is technology changing the way consumers make decisions? How is technology changing the way consumers shop? Which technology products are consumers purchasing and using and how have these products changed the way consumers live their daily lives? How is technology changing consumers’ media habits? What new technologies are on the horizon and how might they change the way business is conducted or marketplaces operate?

Natural Environment

Analyzing the natural environment includes understanding consumers’ connection to and concern for the natural world, as well as how your own product and operations are reliant upon and affect the natural environment. How is the natural environment changing and what impact might that have on the firm’s operations and ability to source raw materials? How does the product impact
the natural environment? How important is the natural environment to target consumers and how do they currently perceive the firm and its products in relation to environmental issues?

After a complete environmental scan is completed, marketing managers must translate their data into strategic implications to understand the opportunities and challenges presented to the business by its external context. What demographic, economic, socio-cultural, technological, natural, political, and/or legal factors enable or limit what is possible? How are market segment opportunities changing due to shifting demographics, socio-cultural trends, economic conditions, technological innovations, natural concerns, or political environments? How might these shifts positively enhance or negatively detract from the firm’s competitive advantages? How do changes in these external environments affect consumers’ needs and the firm’s ability to satisfy those needs?

**Analysis of the Company**

**Analysis of the Business Model and Competitive Strategy**

Analysis of the company begins with an understanding of the firm’s business model. What fundamentally does the company do and how does it make money? What is the engine that makes the business run? Then, an analysis of the firm’s competitive strategy is needed. Firms generally compete by either 1.) having the lowest costs and thus being able to offer consumers the lowest price (Southwest Airlines), or 2.) offering unique, and superior performance on attributes or benefits that are valuable to a large part of the market (the superior shave offered by Gillette), or 3.) by focusing on a small segment/niche of the market and knowing it so well that the firm can customize its products to meet the needs of its consumers in a superior way.

**Competitive Advantage Analysis**

Second, an analysis of the company’s areas of competitive advantage is completed. A competitive advantage is something that the company does or can do that is of value to consumers and that competitors cannot match. A sustainable competitive advantage is one that is predicted to persist over time. To assess competitive advantage, think about what makes your firm and its products unique. Do you have a cost advantage versus your competition? Do you have a product or service advantage versus your competition that provides you with superior differentiation? Do you have marketing advantages versus your competition, such as advertising efficiencies due to a larger market share, or a larger marketing budget? Do you already have an established brand with brand equity value? Do you already have existing relationships with your customers? Do you already have existing relationships with key complementers? Do you have superior research and development to keep a pipeline of new products flowing? Do you have better employees? Highlighting the things the firm does well – the core competencies – can help outline the various tangible and intangible assets or “capitals” the firm possesses.

**Collaborators and Complementers Analysis**

Collaborators are the companies and/or people who help the firm in marketing the product to customers. Common collaborators include suppliers who provide the materials to make the products, distributors and retailers who sell the products to consumers, key influencers like doctors, the media, or bloggers who spread the word about the products. Complementers are the companies and/or people who also benefit when the firm sells its product. Common complementers include
other companies who sell products which are complementary to the ones the firm sells (i.e. one of Bose’s biggest complementers for its SoundDock music system is Apple who sells the iPod that inserts into the SoundDock to provide the music). Analyze the strength of each collaborator and comple menter relationship. Which are strong enough to leverage? Which might be threatened by the decision at hand? Which need more work to ensure both partners’ mutual success? Analyze ways to increase the value the firm provides to its collaborators and complementers. What does each collaborator and comple menter get from its relationship with the firm? How does the product help partners achieve their goals? How can you use this to motivate partners to help you build your business?

Competitors Analysis

Competitive analysis involves identifying and analyzing companies who compete with the firm by delivering a similar product to consumers or an alternate solution to consumers’ needs. The analysis focuses on analyzing the business models, competitive strategies, competitive advantages, and marketing strategies of each firm in comparison to your firm. Which competitors are market leaders, followers, and niche players? Which customer segment does each competitor target? How is each competitor positioned in the marketplace? What marketing strategies and tactics does each major competitor employ? How does each competitor’s product differ from yours? How do your price points compare? How do your marketing budgets compare? How is each competitor communicating with consumers? Through which distribution channels does each competitor sell? Which competitors have gained and lost market share in recent years and what factors have led to these changes? What are each major competitor’s strengths and weaknesses and how can you exploit their weaknesses and match their strengths? How do the opportunities and constraints that the context offers differentially affect your company versus your competitors?

Using Porter's Five Forces\(^1\) to understand industry competitiveness

After taking a close look at the 5 C's, marketing managers need to delve deeply into the dynamics of the industry in which they compete. Managers need to understand and define what industry they are in and to calculate the size, market share, sales, and profitability of the various firms that compete in that industry. Once the industry and its competitors are defined, the manager needs to understand the underlying competitive dynamics of the industry that determine its profitability.

Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of an industry: 1.) industry competitors, 2.) potential entrants, 3.) availability of substitutes, 4.) buyer power, and 5.) supplier power. Analysis of these five forces allows managers to better understand the industry in which they are competing. While some of these forces may be illuminated in a 5 C’s Analysis, a deliberate focus on them at the industry level of analysis, using Porter’s framework, is often useful. These five forces create the profitability potential for the industry and for the firms competing within it and, therefore, have serious implications for marketing strategy.
Industry Competitors

In general, less competition is generally better for firms. Industries characterized by intense competition generally feature profit-depleting price wars, higher levels of advertising and marketing expenses, and frequent new product introductions. This makes it more expensive to compete in industries with strong and aggressive competitors. While a 5 C’s analysis dissects each major competitor individually, analyzing their strengths, weaknesses, and marketing strategies, a Five Forces analysis focuses on competitors as a whole and analyzes how competitive the industry is, and describes the basis for competition (do competitors compete on price, features, distribution?). This more macro look at the industry helps identify what it takes to compete successfully and what level of profitability is expected given competitive pricing and cost dynamics.

Potential Entrants

Since new entrants into an industry raise its competitiveness, industries that are unattractive to firms not already participating in them are more valuable than those that may attract lots of new firms. Industries with high entry barriers, where the cost of entering the industry are high, and low exit barriers, where the cost of exiting the industry are low, are therefore the most favorable, as few firms enter the industry and firms who are struggling can easily leave rather than stay and try to eke out profit by competing aggressively.

Availability of Substitutes

When substitutes exist for the firm’s product, consumers can easily shift their demand from you to them. Therefore, the availability of substitutes tends to reduce price points and increase the need for marketing expenditures, driving down profitability in the industry. The worst type of industry to compete in is one in which perfect substitutes exist for the product. Commodity products are perfect substitutes for each other. Firms who compete in industries in which many substitutes exist need to differentiate their products from others in order to derive profitability. If no differentiation exists, then customers will buy from the firm who sells the good at the lowest price, making it impossible for any firm, other the most cost efficient firm, to profitably compete.

Buyer Power

The amount of power buyers have in an industry also determines profitability. Buyers can be the end users of the product, such as consumer who uses the firm’s laundry detergent, or the retailers or other middlemen who bring the product to the end users (i.e. Wal-Mart). Buyers who are price sensitive, who have substitutes available to them, and who face low switching costs have power over the firm. Consumers gain power when they organize themselves into collective buying units or when they share pricing information amongst themselves. Consumers also gain power over the firm if they possess the capabilities to produce or obtain the product themselves. Firms who face powerful buyers have less pricing flexibility and must give more value to their buyers and keep them satisfied. Firms who face powerful buyers have less negotiating ability and must do what their buyers ask or risk losing them.
Supplier Power

The amount of power suppliers have in an industry also determines its profitability. The suppliers of a firm include other firms that supply it with the raw materials it uses to make its products and its employees who supply the labor to make its products. Suppliers with power can raise prices or limit the supply of goods necessary to build the product. Suppliers who offer materials for which there are no substitutes, who are concentrated, or who can make the product themselves and sell it to consumers have power. When the cost of switching suppliers is high, suppliers gain power, because the firm is stuck working with them. Firms who face powerful suppliers have less negotiating ability and must pay higher prices for their materials and/or labor, raising their cost structure.

Summing it all up in a SWOT Analysis

The third step in a situation analysis is to interpret and analyze the information generated from the 5 C’s Analysis and Porter’s Five Forces Analysis and then to extract the strategic implications for the business. Try to understand how internal conditions contribute to your firm’s strengths and weaknesses, and how external conditions exist as opportunities and threats to your business model. You want to document the most strategically important influences on your performance, both positive and negative. A SWOT analysis provides a snapshot of your current situation by providing a shorthand summary of the information from your environmental scanning and market sensing activities. A good SWOT should identify the critical factors affecting the firm, so that a marketing plan can build on critical strengths, correct glaring weaknesses, exploit significant opportunities, and avoid disaster-laden threats. The goal of a SWOT is not just to develop a laundry list of data as you did in the 5 C’s and the Porter’s Five Forces Analyses, but to be able to cull down and pinpoint the most significant, pressing, strategically important internal and external conditions facing your business. A good SWOT takes the mass of data generated by the 5 C’s and Porter’s Five Forces Analyses and looks for patterns across individual pieces of data to synthesize it and to generalize from it, and prioritizes the data so that the most pertinent and driving forces rise to the top. This requires managers to not only list the data, but to analyze it and interpret it so that they can understand its strategic implications for their business.

External Origin

The first part of a SWOT analysis is a summary of the external opportunities and threats facing the firm. These are things that the firm cannot control, but to which it must respond; therefore monitoring these externalities is increasingly important.

Opportunities

Good marketing is the art of finding, developing, and profiting from opportunities that arise in the external environment. At any given time, changes in the external environment are creating new customer needs, opening access to new customer markets, or offering new technologies that can save costs and enhance profits. The opportunities section of the SWOT analysis summarizes favorable trends or developments in the external environment which may lead to higher sales or profits or which may open doors to new business opportunities for the firm. While the firm can’t affect these externalities, it can take advantage of them to move the business forward.
• Note -- in a SWOT, opportunities are states of the world and do not include potential marketing strategies to take advantage of those states of the world. For example, an opportunity for a company writing a SWOT for their technological product might be “Generation Y consumers are extremely tech-savvy”. The marketing strategies to address this opportunity might include “We should target Generation Y” -- these strategies should not appear in the SWOT -- they should appear in the marketing strategies section of a marketing plan.

Threats

However, for every opportunity the external environment offers, it also serves up potential threats to a business. Changes in the external environment can close access to markets, can increase competition in an industry, or can decrease customers’ desire for and value of a product. The threats section of the SWOT analysis summarizes unfavorable trends or developments that threaten current sales or profits or preclude the firm from pursuing new business opportunities. While the firm can’t affect these externalities, it can change strategies to avoid the negative effects of them. It is important to recognize factors that could impede business performance and plan around them.

Internal Origin

“Know Thyself” is a critical commandment for marketers to follow. The second part of a SWOT analysis involves understanding the internal strengths and weaknesses of the firm. These sections analyze things that are internal to the firm or under its control.

Strengths

Strengths describe the unique resources or circumstances that can be used to take advantage of opportunities. Strengths are core competencies and company capabilities that are superior to the competition and relevant to consumers. Firms should strive to develop proficiency in areas that are relevant, important, and valuable to their customers, and in areas that represent competitive assets that will help the firm compete and succeed in the marketplace. Hence, the strengths section of the SWOT should not focus on listing all strengths, but rather, should focus on those strengths that are customer-relevant and which serve as a distinctive competence for the firm compared to its competition.

Weaknesses

Weaknesses are core competencies and company capabilities that are inferior to the competition. These are areas in which the firm is deficient. Firms should strive to improve their capabilities in areas that are important to and valuable to their customers and in areas in which they face a significant disadvantage to their competition. In identifying weaknesses, managers need to understand what customers require of all firms in the industry (required competencies) and what competencies provide a firm with a unique advantage versus its competition (distinctive competencies). The firm may need to address improving its required competencies just to stay in the game and improving its distinctive competencies to move ahead of competition. Significant weaknesses that remain unaddressed constrain the company’s progress.
A SWOT analysis is generally presented in a table with four quadrants that represent the strengths, weaknesses, opportunities, and threats facing the firm.

Table 1: SWOT Analysis

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**Ongoing Market Scanning**

Conducting environmental scanning and constructing situation analyses is an ongoing activity for marketing managers. Once a first analysis is completed, it is used as a baseline for future analyses to understand how the internal and external environments are changing. Managers must understand how things have changed and how those changes affect the business so that they can be ready to make adjustments to strategy.

Use the following questions to guide ongoing market scanning efforts:

1. **What can be learned from the past?** What successes and failures have you had? What successes and failures have your competitors had? What can you learn from these experiences?

2. **How can the present be better assessed?** What consumer information is available that you are not currently using to make decisions (online brand communities, consumer product ratings, consumer complaints, sales force input)? What companies outside of your sector are succeeding and what are they doing well? What best practices can you mimic?

3. **How can the firm be ready for the future?** What might happen in the future to you, your customers, your collaborators, or your competitors? Which emerging trends are other companies getting behind? What can you test today to enhance your learning for tomorrow? What things are you most dependent upon and what would happen to you if these things disappeared?

**Using the 5 C's, Porters Five Forces, and SWOT Analyses to Guide Marketing Decision Making**

Before marketers make any marketing decision, they should be immersed in the analysis that comes from doing analysis on the 5 C's, Porters Five Forces, and SWOT. These three types of analysis are a crucial first step that marketers must undertake before planning any marketing strategy or executing any marketing tactic. Below are some examples of how these analyses feed into marketing strategy and tactics:
• **Market Segmentation and Target Market Decisions:** The customer section of the 5 C’s analysis provides essential input into different customer segments. The competitive section of the 5 C’s analysis shows who various competitors are targeting, so that the marketing manager can choose a unique and profitable target market.

• **Branding Decisions:** The company section of the 5 C’s analysis provides essential input on the brand equity that the firm currently has. The competitive section of the 5 C’s analysis provides input on the brand equity that competitors have so that the firm can assess its brand’s strengths and weaknesses vs. others.

• **Positioning Decisions:** The company section of the 5 C’s analysis identifies the competencies that the firm possesses which allow it to claim a unique and differentiated position in the marketplace. The competitive section of the 5 C’s analysis shows how competitors are positioned which can help identify points of parity and points of difference. The customer section of the 5 C’s analysis provides insight into what customers value so that various positioning statements can be evaluated.

• **Product Decisions:** The company section of the 5 C’s analysis identifies the product related competencies the firm possesses and the competitive section identifies the product features and benefits offered by other firms in the industry. The customer section of the 5 C’s analysis provides insight into which product features customers value so that product feature additions can be evaluated.

• **Pricing Decisions:** Porter's Five Forces analysis is crucial to making pricing decisions. Before a price can be assigned to a product, managers need to understand the underlying profitability of the industry and the competitive dynamics that affect it. Analyzing the company’s supplier power, buyer power, competitive rivalry, the availability of substitutes, and the threat of new entrants helps determine how much power the company has to raise prices.

• **Distribution Decisions:** The buyer power section of the Porter’s Five Forces analysis sheds essential light on the company’s relationships with its buyers, which in many cases include not only the end user of the product, but intermediaries, such as retailers, who deliver and sell the product to the end user. Companies that have power over their retailer buyers will be able to gain more shelf space and better promotional deals than those that have little power. The complements section of the 5 C’s analysis informs strategic planning for distribution, as it often includes analysis of distribution partners.

• **Promotion Decisions:** The customer section of the 5 C’s analysis provides important insight into the customer’s decision making process, which can indicate at what point the company can communicate with the customer. The customer’s media habits can indicate where, when, and how to communicate.

**References**