

ENVIRONMENTAL FACTORS OF A MARKETING STRATEGY

by

Paul L. Gerhardt

December 2002

Copyright © 2002 Paul Gerhardt. All rights reserved.

Abstract

Environmental factors should be included in formulating a marketing strategy. There are many factors, including technological and governmental factors that should be considered when creating a strategic marketing plan. Scenarios assist in showing strategic uncertainties and their value in the forecasting and planning processes using environmental factors market strategizing.

Table of Contents

Table of Contents	ii
Dimensions of Environmental Analysis	3
Impact Analysis	5
Scenario Analysis	6
Conclusion	7
References	9

Dimensions of Environmental Analysis

There are many questions that should be asked and answered when considering a marketing strategy. Technology, government, economics, culture, and demographics all need to be considered.

The questions of what extent are existing technologies maturing and what technological developments or trends are affecting or could affect the industry need to be answered. Each of these are considered external threats according to David Aaker, author of *Strategic Market Management* (2001).

Ray Burke, a retail expert from Indiana University, drew upon a variety of resources to develop a set of guidelines to be used in analyzing guidelines of environmental analysis and technology (Burke, 1999):

- Use technology to create an immediate, tangible benefit for the consumer.

The benefit, in short, needs to be perceived as such. The Checkout Channel was designed to help entertain, but consumers saw it as an intrusive annoyance.

- Make the technology easy to use. Consumers resist wasting time and becoming frustrated, and too often new technologies are perceived as doing exactly these things. Research shows that it takes customers an average of 20-30 minutes just to learn how to shop in most text-based Internet grocery-shopping systems. AOL beat its main rival CompuServe in part because it was easier to use.

Breadth Component Unit 7

- Execution matters: prototype, test, and refine. One in-store kiosk had no way to inform frustrated customers that it had run out of paper. A bank found customers more receptive to an interactive videoconferencing system when the screens were placed in inviting locations.
- Recognize that customer response to technology varies. One bank found that ATM customers rejected video conferencing options because they actually did not want to interact with humans. Some retailers use loyalty cards to provide receipts and promotions tailored to individual customers.

David Aaker (2001) suggests that, “Strategic success is more likely to come from creating technologies rather than simply forecasting them and then developing reactive plans.” Aaker also maintains that it is, “important to distinguish between disruptive and sustaining technologies.” Sustaining technologies lead to improved performance of existing products and services while disruptive technologies change business models and the nature of assets and competencies needed to win.

Clayton Christensen (1997) tells how established firms, especially market leaders, are more motivated and organized to focus on their existing approach and support it by innovating sustaining technologies.

A study done at Purdue University analyzed 15 companies in five industries to show the impact of new technology (Cooper, Demuzilo, Hatten, Hicks & Tock, 1976). The industries studied included diesel locomotives versus steam, transistors versus vacuum tubes, ballpoint pens versus fountain pens, nuclear power versus boilers for fossil-fuel plants and electric razors versus safety razors.

The conclusion of Purdue study showed that sales of the older technology continued for an extended-substantial period of time. This was believed to be because the firms involved continued to improve it. Safety-razor sales have actually increased 800 percent since the creation of the electric razor. This shows that technology may not signal the end of the growth phase of an existing technology. The study also showed that firms involved with the older technologies had a substantial amount of time to react to the newer technology.

Another conclusion of the Purdue study showed that it was difficult to predict the outcome of new technology. New markets actually opened for new technologies and barely affected older technology.

David Aaker (2001) tells readers that government should be considered as a part of doing an environmental analysis for strategic marketing. Aaker says, "The addition or removal of legislative or regulatory constraints can pose major strategic threats and opportunities. For example, the ban of some ingredients in food products or cosmetics has dramatically affected the strategies of numerous firms." Aaker suggests that the government has also impacted the software industry in a good way. Aaker shows that piracy was reduced by more than one-fourth due to government restrictions (p. 99). Aaker also shows that the government has affected the auto industry with fuel standards and also the medical industry with forced investments of expensive equipment (p. 100).

Impact Analysis

Strategic uncertainties need to be included in the processes of doing an environmental analysis. Assessing how strategic uncertainties can be managed over time must be considered. Aaker (2001) suggests that, "uncertainties merit intensive

investment in information gathering and in-depth analysis, and merit only a low-key monitoring effort.” Aaker also reminds readers that, “strategic uncertainties can lead to an endless process of information gathering and analysis that can absorb resources indefinitely (p. 104).” Things to be considered are the impacts of strategic uncertainty as related to impact on existing or potential strategic business units, importance of involved strategic business units and the number of involved strategic business units.

Aaker suggests that strategic planners should also determine the immediacy of strategic uncertainties. He suggests considering the probability that the involved trends or events will occur. The time frame of the trends or events are related to strategic uncertainty. The reaction time should also be considered and compared with the time required to develop and implement appropriate strategy (Aaker, p.105).

Scenario Analysis

It is appropriate to do a scenario analysis as a part of the environmental analysis stage of strategic marketing analysis. Scenario analysis assists in creating new models of business with the ever-changing environment in mind. David Aaker (2001) suggests that, “Scenarios proved a way to deal with complex environments in which many relevant trends and events interact with and affect one another. When a set of micro trends and events are aggregated into one, two, or three total scenarios of the future environment, the analysis is more manageable (p. 107).” Aaker tells readers that scenarios are an excellent way for strategists to deal with uncertainty.

Scenario analysis includes four parts. Identification of the scenarios is the first step. This first step is useful in determine priorities for addressing uncertainties.

Development of the scenario strategy is the second part of scenario analysis. This stage

Breadth Component Unit 7

assists in creating a stronger position in the market. Estimating scenario probabilities is the third part of scenario analysis. Estimating scenario probabilities, according to Aaker (2001) give a deeper understanding and assists in determining underlying factors. The final step is to perform “regret analysis.” Regret analysis compares expected outcomes of each strategy. The formula for regret analysis is conducted by multiplying each scenario outcome by its probability and then adding up the results.

Conclusion

Implementing an environmental analysis for marketing takes careful consideration of many factors. The very nature of environmental analysis changes with technology, government and economics. It allows organizations to create opportunities or predict and evaluate possible threats.

The impact of analysis involves assessing the impact and immediacy of trends and events that underlie strategic uncertainty (Aaker, 2001, p. 110). It depends on the impact on small business units to organization. Sales, profits and/or costs may not reflect the true value of a firm but are evaluated in environmental analysis to determine their importance and priorities.

Finally, scenario analysis is an aspect of environmental analysis that should be conducted to explore assumptions about the future in order to create a stronger marketing strategy. The scenario analysis involves the creation of plausible scenarios, the development of strategy—appropriate to each, the assessment of scenario probabilities, and the evaluation of the resulting strategies across the scenarios (Aaker, 2001).

Breadth Component Unit 7

Environmental analysis may be the most expensive aspect of the strategic marketing planning process, but definitely a part that cannot be overlooked. Knowing that technology, government, economics, culture and scenarios are always changing gives reasons for strategic analysts to keep the process going.

References

- Aaker, D. A. (2001). *Strategic market management 6th edition*. New York, NY: Wiley & Sons.
- Burke, R. (July-August 1999). Confronting the challenges that face bricks-and-mortar stores. *Harvard Business Review*. pp. 160-167.
- Christensen, C. (1997). *The innovator's dilemma*. Boston, MA: Harvard Business School Press.
- Cooper, A., Demuzilo, E. Hatten, K., Hicks, E. & D. Tock. (1976). *Strategic responses to technological threats*. Academy of Management Proceedings. pp. 54-60.