

Chapter 4

The Situation

Situational Analysis

“Inquiry is fatal to certainty.”

~ Will Durant

Situational Analysis

Situational analysis is the starting point for developing strategy. Before we can develop strategies for the future, however, we need to understand the present. Situational analysis is the process we use to gain understanding and insight into our present situation.

When conducting a situational analysis, we are engaged in two major activities: the marketing audit and SWOT analysis. (A SWOT analysis is a matrix-based tool used in marketing planning to identify strengths, weaknesses, opportunities and threats related to the company.)

As noted in figure 4.0 below, the results of the marketing audit become inputs into the SWOT analysis.



Figure 4.0

The Marketing Audit

In any form of strategic planning, we always seek to understand the present situation in order to establish a base from which to begin the developing our strategic planning efforts. A marketing audit helps with this by identifying the current state of the marketing capability of the firm. It just makes sense to understand your marketing capabilities before engaging in the development of a marketing or business plan.

Please note that a sample marketing audit tool has been provided in Appendix 1 for review.

What is a Marketing Audit?

A marketing audit is a structured, complete review of the marketing activities of an organization.

Why Do a Marketing Audit?

A marketing audit is typically undertaken with the expectation that it will provide benefits related to:

- ♦ Understanding the marketing strengths and weaknesses of the organization.
- ♦ Engaging other functional areas in the understanding of marketing activities.
- ♦ A comprehensive understanding of your marketing operations.
- ♦ Obtaining an understanding as to the allocation of marketing resources
- ♦ Insight into potential training and development requirements.
- ♦ The direction for the development of the marketing or business plan.

What Does a Marketing Audit Involve?

A marketing audit involves the review and evaluation of the marketing activities of the firm with respect to:

The Internal Environment

The internal environment is the firm itself. As part of the marketing audit an inward looking view of the activities of the firm should be undertaken.

The External Environment

The external environment is the outside world. The external environment represents those areas that affect the firm, however, it has no control over them.

The Competition

Any marketing audit of the current situation should include a review of the competition.

Internal Analysis

As noted in the marketing audit section internal analysis looks at the functional aspects of the company itself. Internal analysis requires an objective evaluation of a variety of internal factors that impact the success of the firm. The following list of internal items for review provides a good starting point for your internal analysis.

Company

- ♦ Vision
- ♦ Mission
- ♦ Culture
- ♦ Organizational structure

Financial

- ♦ Financial flexibility
- ♦ Financial resources

Human Resources

- ♦ Key staff capability
- ♦ Turnover rate

Marketing

- ♦ Brand strength
- ♦ Market share
- ♦ Product line
- ♦ Sales capability
- ♦ Service capability

Operational

- ♦ Access to resources
- ♦ Inventory depth
- ♦ Operational capacity
- ♦ Operational effectiveness
- ♦ Purchasing capability

Technology

- ♦ Technological currency
- ♦ Technological knowledge
- ♦ Technological skill

External Analysis

We use external analysis to make certain that what we are doing is not out of sync with what is happening in the world. External analysis also serves to ensure that we are not blindsided by things that we may never have taken the time to consider.

Undertaking external analysis helps to identify outdated corporate thinking and behaviors that we have become accustomed to and comfortable with over time. In so doing, we allow for the possibility of much greater alignment with the outside world and our strategic direction.

External analysis is composed of a number of different elements, including:

- ♦ Economic environment
- ♦ Environmental issues
- ♦ Legal environment
- ♦ Political environment
- ♦ Social environment
- ♦ Technological environment

A challenge exists when performing external analysis. It can be difficult to determine exactly what aspects of the external analysis require action. In the sample table below, we provide a more objective analysis of the external environment. This is accomplished by ranking the items identified according to the degree of certainty related to their occurrence and the importance of the item.

External Environment Analysis Template				
	Description	Implication	Certainty 1 - 5	Importance 1 - 5
Political	Change in governing party	Shift in business policy	1	3
Economic	Recession likely	Sales decline	4	5
	Currency declining	Export boost	3	4
Social	Customers becoming green-focused	Must move to green products	4	4
Technological	Social media increasing in importance	Adopt social-media plan	5	3
Environment	New environmental regulations	Cost to implement	2	3
Legal	Change in director responsibilities	Purchase director insurance	2	4

Figure 4.1

Once the ranking has been established, then move on to plot the results in the chart below. For example, the first item identified above in the political environment was ranked as 1 for certainty and 3 for importance.

Placing these results in the chart below provides an indication that the item can be safely ignored.



Figure 4.2

When scores land in the “strategy” quadrant, the next step is the development of a strategy to address the item in question. Scores landing in the “scenario planning” quadrant do not require a full strategy. However, preliminary planning should be undertaken to identify “best case” and “worse case” scenarios. Plans should be put into place to monitor those items falling in the “scenario planning” quadrant over time.

The Market

There are several things that should be identified with respect to the market as a part of our marketing audit activities. By undertaking market research, we can find

the answers too many questions associated with the market, such as those noted below:

- ♦ Market growth
- ♦ Market needs
- ♦ Market segments
- ♦ Market structure
- ♦ Market trends
- ♦ Market valuations

Competition

Looking at competition from a situational analysis perspective involves taking a high-level view of the competition. Most importantly, we are interested in assessing the relative strengths and weaknesses of our competitors as they relate to ourselves.

To do so, there are any number of potential characteristics we could study. The following are some of the possible competitive aspects to consider:

- ♦ Financial resources
- ♦ Markets served
- ♦ Pricing
- ♦ Products
- ♦ Quality

Chapter 5 provides more detail concerning competitive analysis.

SWOT Analysis

SWOT analysis is a structured way of looking at the strengths, weaknesses, opportunities and threats facing an organization.

The process of SWOT analysis is outlined below in Figure 4.5. “Situational Analysis Process.” It includes an initial SWOT analysis, the application of filters to the SWOT analysis, a final SWOT analysis as a result of the filtering, and the use of the TOWS matrix¹ to develop strategies.

SWOT analysis, the final link in the marketing audit process, is one of the most widely recognized marketing tools. It is also one of the most widely misused marketing tools.

The outputs gathered during the internal, external, market, and competitive analysis should be incorporated into the SWOT analysis. One of the major failings of SWOT analysis is that it is frequently used as a stand-alone tool, disconnected from the outputs generated from our situational analysis efforts. It also tends to be overly long and subjective. Simply throwing all the outputs from our situational analysis into a SWOT matrix and then creating strategies based upon them is useless. Doing so simply provides too much data to allow for meaningful strategy development.

Once we have added the outputs from our situational analysis into the SWOT matrix, we must then begin to edit these outputs. The editing of the initial SWOT matrix is accomplished by applying filters to the data. The filters serve to ensure that the data is actually useful for the strategy-development process.

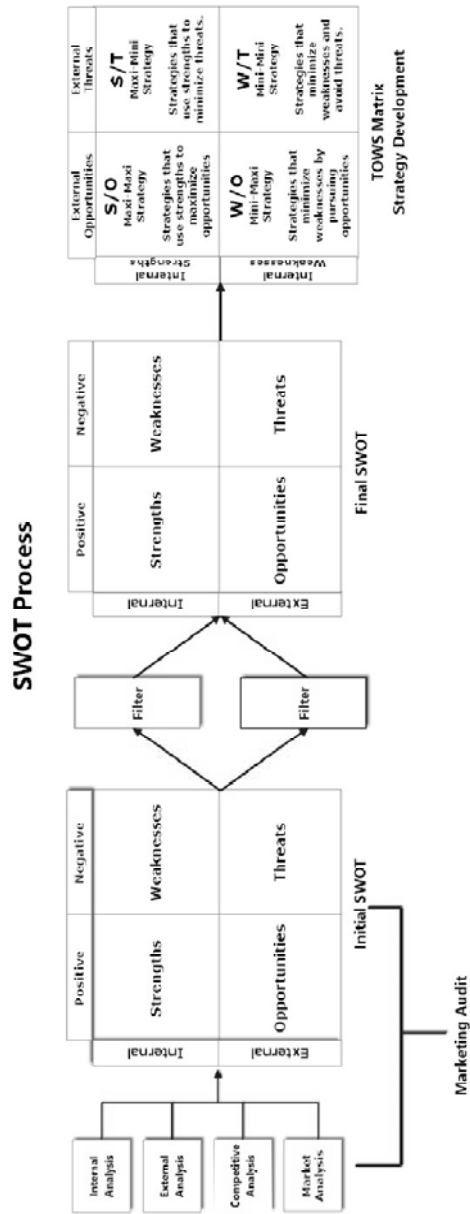


Figure 4.3

SWOT Strengths Filter

The first filter looks at the proposed strengths identified in the SWOT matrix. The proposed-strengths filter uses valuable, rare, imitable and organizationally aligned (VRIO) as the characteristics for evaluating a true strength.

A more complete explanation of the proposed strength filter elements is below:

Valuable

Does the proposed strength actually create value for the customer? If the company values the proposed strength but the customer does not, it is not a strength.

Rare

Is the proposed strength exclusive to the company? If competitors also have the proposed strength, it is not a strength.

Imitable

Would the proposed strength be hard to copy? If competitors could easily adopt the proposed strength for themselves, it is not a strength.

Organizationally Aligned

Is the company positioned to be able to utilize the proposed strength? If the company has no way to implement the proposed strength, it is not a strength.

To be considered a true strength, the proposed strength must meet all of the VRIO criteria. Failure to meet any one of the VRIO criteria eliminates the proposed strength.

SWOT Weaknesses Filters

The proposed-weakness filters use meaningful, uncommon, difficult and uncompensated (MUUD) as the characteristics for evaluating a true weakness.

A more complete explanation of the proposed weakness filter elements is below:

Meaningful

Does the proposed weakness matter to the customer? If the customer does not care about a proposed weakness, then it is not a weakness.

Uncommon

Does the competition also have the proposed weakness? If they do, then the proposed weakness is not a weakness.

Difficult

Is correcting the weakness a significant undertaking? If the weakness can be addressed with relative ease, then it is not a weakness.

Uncompensated

Is the proposed weakness offset by another aspect of the company's operation? If the proposed weakness can be addressed by other areas of the company's operations, then it is not a weakness.

To be considered a true weakness, a proposed weakness must meet all of the MUUD criteria. Failure to meet any one of the MUUD criteria eliminates the proposed weakness.

With your validated strengths and weaknesses identified, they can be set aside temporarily and incorporated in to the development of strategies in

Chapter 8. To complete our situational analysis, we will move on to look at dealing with the competition in Chapter 5.

Action Items:

1. Complete a marketing audit.
2. Initiate an internal analysis of the company.
3. Undertake an external analysis of the company.
4. Perform an analysis of your markets.
5. Undertake a SWOT analysis.