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David W. Nylen  
August 16, 2010

## A.17 Situation Analysis

### PREPARING A SITUATION ANALYSIS

A **situation analysis**, sometimes called an **opportunity analysis**, is the initial step in the **marketing planning process** and serves as the analytic process that precedes marketing decision making. The purpose in conducting a situation analysis is to develop information that will permit decisions based on efficient application of the strengths of the product to opportunities in the market. The structure of the situation analysis is shown in Figure A.17-1.

A situation analysis, like the marketing planning process of which it is a part, is conducted for individual products. However, the process can, with some adaptation, serve as a model for the analysis step in **strategic market planning** that takes place at the level of the business unit (see GLOSSARY entry A.20).

*Elements of the Situation Analysis.* The elements that are analyzed in a situation analysis can be divided into internal factors and external factors. The internal analysis is concerned with the product and its market position. The external factors include the elements of the environment to which the product must respond. The variables examined vary somewhat depending on whether the product is a new one or an established one. Established products have a marketing history and a marketplace position that must be considered as part of the situation analysis. Our description of the process will assume an established product. New products are considered further in GLOSSARY entry C.17 on **new product development** and entry C.18 on **new product introduction**. Several other situation analysis elements presented here are further examined in separate GLOSSARY entries.

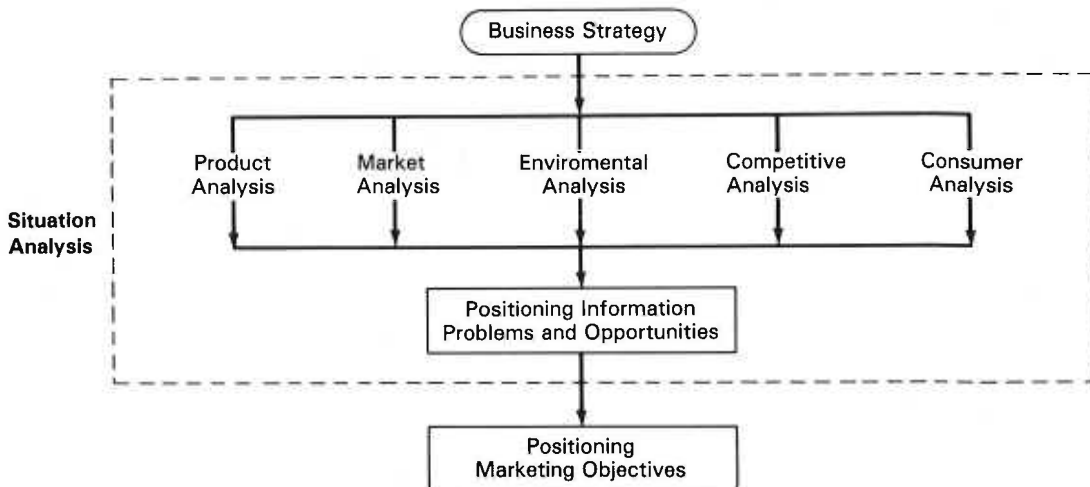


FIGURE A.17-1

Elements of the Situation Analysis

## G-94 SECTION A / CONCEPTS FOR SITUATION ANALYSIS

Although the organization and content of the situation analysis may vary according to the situation, five elements should definitely be examined: product, market, environment, competition, and consumer.

■ *Product Analysis.* In the product analysis, all the attributes of the marketer's product should be described and compared to the characteristics of competitive products. It is essential that this analysis be done comparatively so that potential competitive advantages are uncovered. Product attributes analyzed should include physical, symbolic, and perceived characteristics.

■ The **consumer or industrial goods classification** of the product (see GLOSSARY entries A.3 and A.7), as perceived by the target market, should be determined for use as a guide in forming the marketing strategy later in the planning process.

For established products, the product analysis should include examination of the current marketing strategy and its performance. If the prior marketing plan included marketing objectives, the analysis should include a comparison of actual market performance with objectives. In other instances, actual marketing programs, such as advertising, personal selling, and pricing should be examined, and implemented programs should be compared with program plans.

■ *Market Analysis.* The market analysis defines the characteristics of the total market in which the product competes. If it has not already been established, the market must be defined both in terms of products and the geographic area. Products in the defined market should include those considered by consumers as substitutes in similar usage occasions.<sup>1</sup> The geographic scope of the market should match the distribution area of the marketer's product.

With the market defined, market sales data should be collected and analyzed. The size of the total market in the most recent year should be estimated in dollars and in units. Market growth and future sales of the market should be estimated using **sales forecasting** techniques (see GLOSSARY entry A.16). The geo-

graphic and seasonal distribution of market sales should be determined.

Results of the market sales analysis should make it possible to estimate the stage of the **product life cycle** for the product category (see GLOSSARY entry A.15). Knowledge of the product life-cycle stage gives guidance to marketing strategy decisions.

■ *Environmental Analysis.* Changes in the environment create the growth in markets. Thus understanding changes in the environment enables the marketer to anticipate market opportunities. Environmental variables that should be analyzed are the economic, technological, social/cultural, and political/regulatory environments. Analysis of **environmental variables** is considered in detail in GLOSSARY entry A.7.

■ *Competitive Analysis.* Competition is one of the environmental variables, but because of its importance to determining marketing strategy, it is usually considered separately in the situation analysis. This analysis should look at competition on both macro- (total market) and micro- (individual firm) levels.

On a macrolevel, the competitive analysis should establish the **competitive market structure** of the product market. This provides a measure of the competitiveness of the market and offers guidance in resolving marketing strategy issues. GLOSSARY entry A.1 provides further guidance in determining competitive market structure.

On a microlevel, the competitive analysis should define the major competitive brands and then determine the marketing strategy for each competitor. This should include estimating market share, determining product **positioning**, and outlining the **marketing mix** for each brand.

■ *Consumer Analysis.* As the **marketing concept** makes clear, understanding consumer motives and consumer behavior is essential to effective marketing decision making. There are three specific elements that must be included in the consumer analysis.

First, the analysis should seek to determine consumer motives. What are the needs or problems that consumers are attempting to solve with this product? What are the benefits that consumers seek? What are the criteria by which consumers evaluate products like this?

Second, one or more **market segmentation** approaches should be developed. The most desirable segmentation results come from using causal segmentation bases. The market

<sup>1</sup>For further information on the process of defining markets, see George S. Day, Allan D. Shocker, and Rajendra K. Srivastava, "Customer Oriented Approaches to Identifying Product Markets," *Journal of Marketing* 43 (Fall 1979), pp. 8-19.

segmentation process is examined in detail in GLOSSARY entry B.3.

Third, the consumer analysis should describe the consumers to provide guidance in reaching them with promotion and distribution. Description should be in standard demographic terms. In addition, other descriptive classifications, such as social class, self-concept, subculture, and psychographics, help the marketer understand the consumer.

**Sources of Information for the Situation Analysis.** A situation analysis will be only as good as the information upon which it is based. Both primary and secondary information are needed. If the firm has a **marketing information system** and a **marketing control system**, it will systematically collect, organize, and disseminate much of the information needed for the situation analysis (see GLOSSARY entries D.3 and D.4).

The product analysis will initially depend upon internally generated technical information on product attributes, but evidence of consumer product reactions and product perceptions can be gained only through primary market research. Marketing performance data should be available internally through the **marketing control system**.

The market, environmental, and competitive analyses are largely dependent on secondary data. Sources include trade periodicals, trade associations, annual reports, government census and statistical reports, and investment services. Informal surveys among trade intermediaries and reports from field sales personnel can also contribute, especially in competitive analysis. An understanding of consumer behavior can be obtained only through primary marketing research, although much can be learned from small-scale, qualitative research that is relatively inexpensive. Descriptive information on consumer characteristics can sometimes be purchased from syndicated research services.

**Analysis and Outcomes.** The benefits of conducting a situation analysis are highly dependent upon the quality and completeness of the data collected. However, the data are not valuable without analysis. The analysis process is straightforward. Information must

first be organized and arrayed in useful form. Usually this means preparing summary tables, frequency distributions, matrices, diagrams, and the like. The information is then examined in this organized form and conclusions drawn as to its significance.

Two outcomes are sought from the situation analysis. The first is an assessment of the strengths and weaknesses of the product and its marketing program. This, of course, is the result of the product analysis. The external analyses of market, environment, competition, and consumer should seek to determine the opportunities or threats that the product will face in the market. This analysis, sometimes termed a SWOT analysis (strengths and weaknesses, opportunities and threats) should result in a specific list of the strengths and weaknesses of the product and the threats and opportunities it faces.

The second outcome needed from the situation analysis is the information required for positioning the product (see GLOSSARY entry B.1). This decision requires (1) one or more approaches to segmenting the market, (2) estimates of the relative market potential of the segments, (3) understanding the attributes of the product and possible areas of competitive advantage, (4) knowledge of consumer motives and the benefits that consumers seek in the product, and (5) estimates of the positioning of competitive products. While this information tends to flow naturally out of the situation analysis, care should be taken that each item is specifically designated as an outcome of the analysis.

### USE OF THE SITUATION ANALYSIS IN MARKETING DECISION MAKING

The structure and process of the situation analysis defines the first step in developing marketing plans and also serves as a useful analytical framework in marketing decision making.

**Application to the Marketing Planning Process.** Marketing planning is the process by which marketing plans are formulated for products. It is described in Chapter 4. Mar-

keting plans provide focused, coordinated marketing programs for products. The first step in the marketing planning process is preparation of a situation analysis.

The relationship of the situation analysis to marketing planning can be seen in Figure A.17-2 that presents the **marketing management process** of which the marketing planning process is a component. The situation analysis is built upon data. A major source of that data is the feedback provided by the marketing control system and the marketing information system. The marketing control system monitors actual versus planned performance and feeds that information to the product analysis; the marketing information system monitors the external environment and contributes that information to the external analyses.

The two outputs of the situation analysis, positioning information and a list of problems and opportunities, are fed into the positioning step of the marketing planning process where they provide the basis for the decisions made at this stage. The positioning information generated in the situation analysis is used to decide upon a segmentation approach, a target market, and a product positioning. The list of problems and opportunities generated by the situation analysis is used as the basis for generating marketing objectives. Good marketing objectives flow directly from problems and opportunities.

In addition to contributing to the positioning stage of the marketing planning process, the information generated in the

situation analysis has many applications in making the **marketing mix** decisions, the step that follows positioning (see GLOSSARY entry C.16). While the positioning and objectives provide a general unifying direction for the marketing mix, there are many other criteria for these decisions that require information developed in the situation analysis. For example, knowledge of the goods classification and life-cycle stage of the product class both provide guidance to marketing mix decisions. Both of these pieces of information would normally be developed in the situation analysis.

*Relation to Strategic Marketing Planning.* **Strategic market planning** (see GLOSSARY entry A.6) directs how a business, rather than a product, will compete. The strategic direction provided by this planning process becomes an informational input in the situation analysis for individual products. It may be considered as one of the **environmental variables** or may be treated separately.

The first step in the strategic planning process is to conduct an opportunity analysis. The process for conducting a situation analysis for a product can, if broadened, provide a pattern for opportunity analysis in strategic market planning. The internal/external analysis model applies well, but the internal analysis must be broadened to include the attributes of the total business rather than those of a single product. The external analyses also tend to be wider in

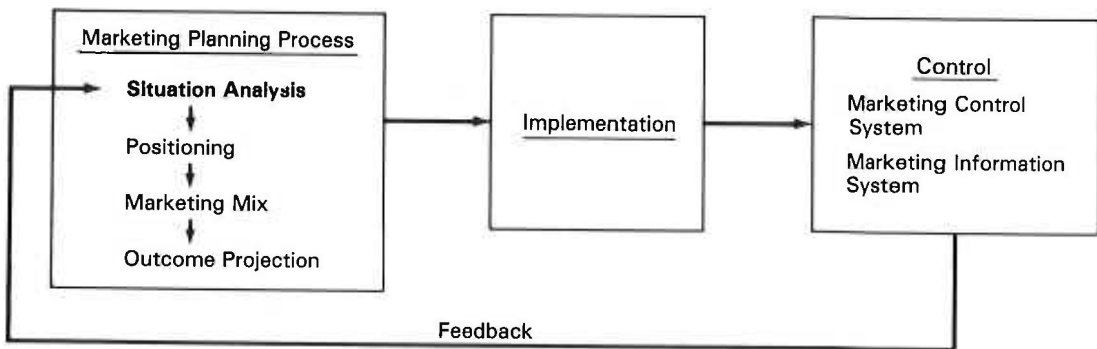


FIGURE A.17-2  
The Situation Analysis in the Marketing Management Process

scope. Nonetheless, the essential analytic process remains the same.

**Application to the Marketing Decision-Making Process.** Situation analysis provides an analytic framework useful in making marketing decisions in problem situations that arise outside of the marketing planning process.

The need to make a marketing decision is frequently triggered by the appearance of symptomatic evidence suggesting that there may be a problem, but not really indicating what it is. Defining the basic problem usually requires analytic investigation that goes beyond the symptoms to uncover the underlying cause. The situation analysis provides a helpful guideline to this problem definition process. The internal and external elements in the situation analysis can be used to define areas to examine as problem causes. In each area, the analyst should be particularly sensitive to changes that have taken place in either internal or external variables since they are often the underlying cause of marketing problems.

Once the underlying problem has been defined, the situation analysis approach can also be helpful in shaping a problem solution. Whether the problem is one of positioning or lies within the marketing mix, the information generated by a situation analysis will be needed in shaping a solution. Thus many of the analyses of the situation

analysis must be conducted as a preliminary to developing a solution.

A productive way to develop a solution in a complex problem situation is to break the problem down into components or subproblems that can be separately analyzed. (See Chapter 3 for details on this approach.) The outline of the situation analysis provides a logical reference list of possible subproblems that should become areas of inquiry. For example, if the problem involves the product variable, the situation analysis might suggest these subproblems: (1) What are the attributes of the product? (2) What advantages does the product have over competition? (3) In what goods class does the product fall for target consumers? (4) What is the marketing program for the product and how well did it meet marketing objectives? Asking questions such as these through a situation analysis leads the marketer step by step to a solution.

### SUGGESTIONS FOR FURTHER READING

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