

3. External Situation

3.1 Analysis of the environment

A environmental analysis helps a business understand external forces that can affect it. The environment, or external forces, are often factors that a business cannot control, yet it is important to be aware of environmental concerns when preparing a marketing plan or introducing a new product to the market.

The most common method for preparing a marketing environmental analysis is to conduct a PESTLE analysis, which stands for Political, Economic, Social, Technological, Legal and Environmental, areas affecting a business.

PESTLE analysis is a useful tool for any business. Easy to use and understand, PESTLE analysis provides a methodology for critically examining the external factors that may affect the business itself, its operations and/or its strategy.

The most important aspect to remember is that PESTLE analysis is nothing more than a framework for determining the external factors that may affect a business. PESTLE analysis itself is not intended as a rigid structure that requires lists upon lists in tightly defined categories. The greatest strength of PESTLE analysis is its ability to facilitate brainstorming about factors that are outside the company's control but which affect the business nevertheless.

The relative effectiveness of PESTLE analysis will vary based upon the industry and the good/services produced by a company. PESTLE analysis is best used in scenarios where a new location, product or service is considered, a potential acquisition or merger is judged, or the current relation of a business, product, service or brand is evaluated in regards to its market.

Investigate political factors that would impact your subject. There may be pending legislation that would affect how you can market your products; cutbacks in government spending that would impact your cash flow and research economic factors that may affect you.

Poor economic conditions may mean that your target consumer has cut back on spending, and won't be willing to pay as much for your products. Identify social factors that could influence your subject.

Social Factors: The social factors considered (also called socio-cultural factors) refer to those factors that result from society's changing tastes, preferences and demands. Examples include disposable income, age distribution, population growth rate, education, diversity, living standards and cultural attitudes.

Technological Factors: Technological factors include those within the company, such as research and development, and those of complementary companies and competitors, such as new innovations and advancements. Other technological factors include transportation, communications and the Internet.

Environmental Factors: Environmental factors include climate change, climate and weather, as well as attitudes toward the environment.

Legal Factors: Legal factors to be considered, both domestically and in regard to any country in which the company does business, include antitrust law, consumer law, employment law, health and safety law, and corporate law.

Consumer opinions, trends and buying patterns, the brand image of your company and ethnic or religious views are all potential social factors. As you can see environmental analysis is vital to the success of your company.

3.2 Analysis of the market

Whether you are starting a new business or launching a new product, conducting a marketing analysis is the first step in determining if there is a need or audience for your idea. Knowing the market's needs and how it is currently serviced provides you with key information that is essential in developing your product/service and marketing plan. Too often, businesses spend thousands of dollars launching a "new" idea with a limited market because of competition. The owner is forced to reevaluate his strategy and determine if there is room for another player.

A market analysis is an organized way of analyzing market opportunities, identifying consumer needs and developing new products or services to meet those needs. If you are an entrepreneur, conducting a market analysis is an important part of starting your business. Likewise, established businesses conduct a market analysis when introducing a new product or bringing an existing product into a new market.

- Determine the market you'd like to reach, and gather as much information about that market as you can. Look for demographic data, such as age, geography and income level. Information on the buying habits of your target market is also useful if you can find it.
- Identify problems faced by your target market related to your products or services. Even if you don't yet have a specific product or service in mind, you can use this step to narrow down business possibilities to those that would be most viable in this market.
- List any existing products or services that meet or attempt to meet the needs you identified in Step 2. Note any shortcomings of each product, such as the price, effectiveness or ease of use.
- Analyze your competition. Research other businesses currently offering solutions for the problem on which you're focusing. Judge whether your competitors are successful in the market, what specific market they are targeting and strategies they use to reach the target market.
- Find out what customers expect from this type of product or service. Conduct market research or search for online reviews of similar products. This will provide valuable insight on specific features your target market would like to see, which you can incorporate into your new or existing product.
- List methods you could use to reach your target market. Think of marketing strategies your competition is not currently using, or improvements upon the strategies they use.
- Identify your unique selling proposition. This is a feature or benefit of your specific product that differentiates you from your competition, and it is the primary point you'll want to get across in your marketing messages

3.3 Competition

Competition - Direct and indirect

In order to be successful in your new business, you need to know your competition. With your direct competition, you need to determine who and how strong they are. By researching your competition, you will learn a great deal about managing your own business. Areas you need to research are listed below:

- ! Identify the top five competitors in your market.
- ! Determine their similarities and differences to the business you are planning.
- ! Identify and compare your company's and your competitors' strengths and weaknesses.
- ! Identify methods for making your operation better than theirs.
- ! Determine whether their business is increasing, decreasing or level.
- ! Compare your marketing techniques with those of your competitors.

Indirect competition is comprised of the cultural, legal, educational, and socio-economic barriers to marketing your product/service. For example, an educational product/service might be targeted at a specific group based on an educational need, but a cultural bias or economic situation might keep them from purchasing it.

3.4 Demand

The aggregate of the demands of all potential customers (market participants) for a specific product over a specific period in a specific market. Businesses often spend a considerable amount of money in order to determine the amount of demand that the public has for its products and services.

Incorrect estimations will either result in money left on the table if it's underestimated or losses if it's overestimated. Forecasting total market demand can be crucial to creating a smart marketing strategy.

Some companies--and even whole industries--have learned the hard way that a product's historical demand curve doesn't necessarily predict future demand. An accurate total market demand forecast can yield clues about future product performance.

Here are the four steps to creating one:

1) define the market

2) divide total industry demand into segments

3) find out what drives demand in each segment and project how those drivers might change, and

4) assess the risks to the forecast and decide which assumptions are most critical to success. Just going through this process can help managers better understand the real world in which they operate.