

UNIT 1

ENVIRONMENTAL SCANNING - INTERNAL & EXTERNAL

Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organizations internal and external environment.

The process of collecting, evaluating, and delivering information for a strategic purpose is defined as environmental scanning. The process of environmental scanning requires both accurate and personalized data on the business environment in which the organization is operating or considering entering.

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success.

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During strategy formulation, an organization must take advantage of the opportunities and minimize the threats. **A threat for one organization may be an opportunity for another.**

Internal analysis of the environment is the first step of environment scanning. Organizations should observe the internal organizational environment.

This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential,

external analysis, three correlated environment should be studied and analyzed —
immediate/industry environment national environment broader socio-economic environment/macro-environment

Examining the **industry environment** needs an appraisal of the competitive structure of the organization's industry, including the competitive position of a particular organization and it's

main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition within the industry.

Components of Environmental Scanning

- ▶ **Internal Environmental Components-** The components that lie within the organization are internal components and changes in these affect the general performance of the organization. Human resources, capital resources and technological resources are some of the internal environmental components.
- ▶ **External Environmental Components:** The components that fall outside the business organization are called external environmental components. Although the components lie outside the organization, they still affect the organizational activities. The external components can be divided into microenvironmental components, and macro environmental components.

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Techniques of Environmental Scanning

- ▶ **SWOT Analysis**
- ▶ **PEST Analysis**
- ▶ **ETOP**

▶ **QUEST**

PROCESS OF ENVIRONMENTAL ANALYSIS

▶ **Scanning**

▶ **Monitoring**

▶ **Forecasting**

▶ **Assessment-**

▶ **SWOT Analysis-** SWOT analysis is an acronym for Strengths, Weaknesses, opportunities and threats analysis of the environment. Strengths and weaknesses are considered as **internal factors whereas opportunities and threats are external factors. These factors determine the course of action to ensure the growth of the business.**

▶ **PEST Analysis-** PEST stands for Political, economic, social, and technological analysis of the environment. It deals with the external macro-environment

▶ **.ETOP-** ETOP stands for the Environmental Threat Opportunity Profile. It helps an organization to analyze the impact of the environment based on threats and opportunities.

▶ **QUEST-** QUEST stands for the Quick Environmental Scanning Technique. This technique is designed to analyze the environment quickly and inexpensively so that businesses can focus on critical issues that have to be addressed in a short span.

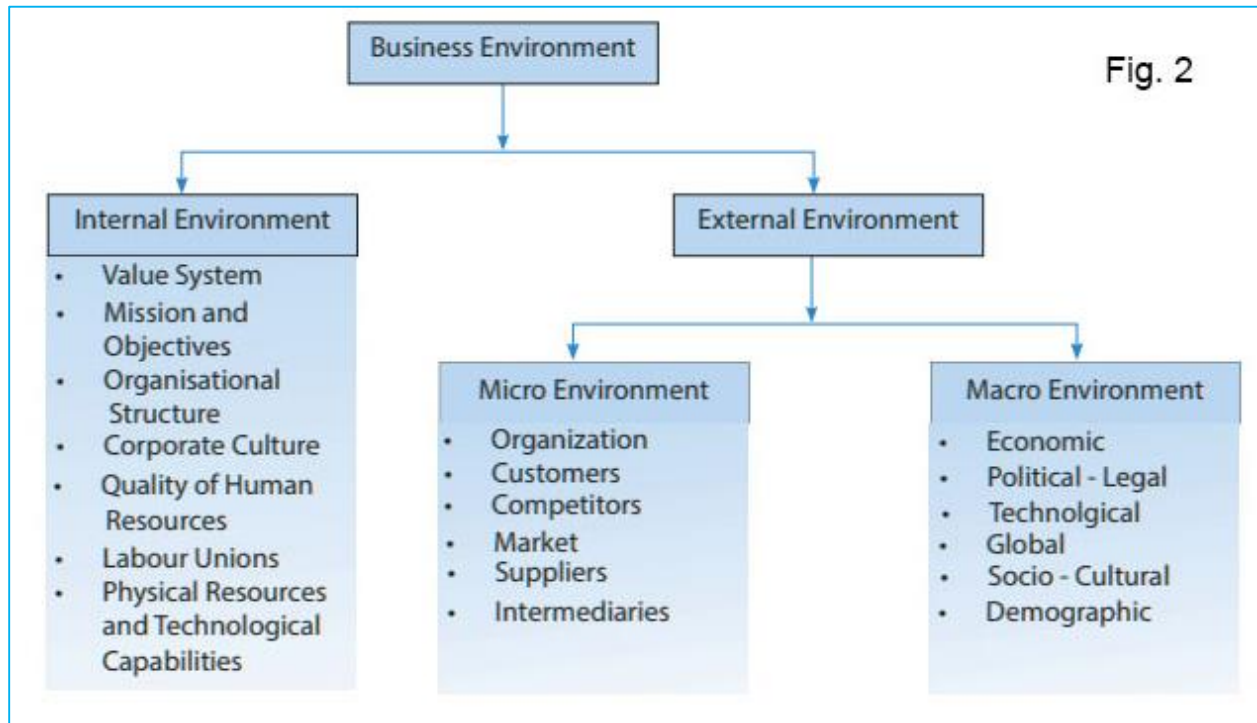
▶ **PROCESS OF ENVIRONMENTAL ANALYSIS**

▶ **Scanning-** The process of analyzing the environment to spot the factors that may impact the business is known as Environmental Scanning. It alerts the enterprise to take suitable strategic decisions before it reaches a critical situation.

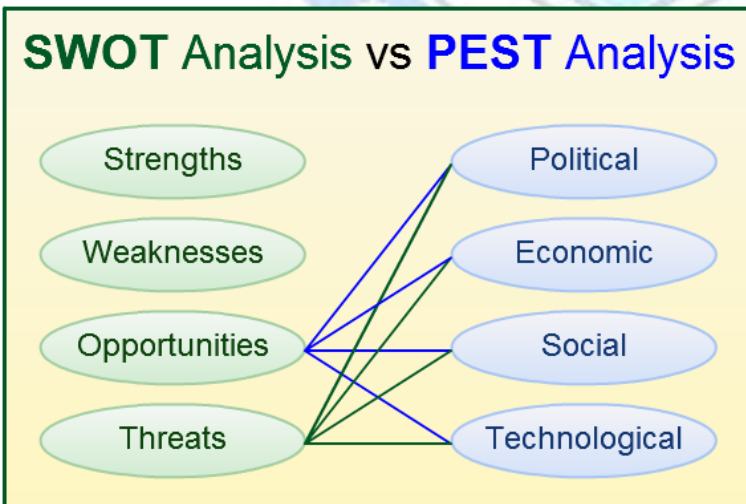
▶ **Monitoring-** The data is gathered from various sources and is utilized to monitor and find out the trends and patterns in the environment. The main sources of collecting data are spying, publication talks with customers, suppliers, dealers and employees.

▶ **Forecasting-** The process of estimating future events based on previously analyzed data is known as environmental forecasting.

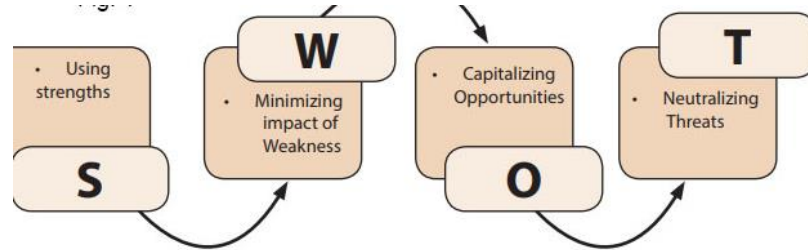
- **Assessment- T** In this stage, the environmental factors are assessed to identify whether they provide an opportunity for the business or pose a threat.



PESTEL – SWOT Analysis



SWOT



Strengths – are the [aspects](#) of an organization that make it better than its competitors. For example, the strength of a company can be having one of the best technological tools in the [market](#). A thorough analysis can help the company use it to improve its business.

Weaknesses – areas where the organization needs to improve to remain competitive in the industry. Some examples of weaknesses are high debts, lack of capital, inadequate supply chain, etc.

Opportunities – are external factors that can help an organization in gaining competitive advantage. For example, if a [country](#) changes its import laws, then a car exporter can increase his sales by taking advantage of this opportunity.

Threats – are factors which have the potential to cause harm to an organization. For example, a drought is a threat to a crop-producing [company](#) as it can destroy the crop.

A SWOT Analysis helps an organization identify its core strengths and weaknesses as well as opportunities and threats and create a strategy to achieve success. It can be used for specific segments like production, [marketing](#), and sales.

PESTEL

Factors of PESTEL Analysis

1] Political

These include factors that affect the extent and the impact of the government on the economy of a country. For example, the laws, taxation policies, monetary policies, etc are all a part of the political environment. Additionally, some political factors to consider are as follows:

The political stability of the country

Political ideologies of the government

Taxation policies

Regulatory practices and governing bodies

Term of the government and any expected changes in the future

Influential political leaders and their ideas

Browse more Topics under Business Environment

Meaning and Characteristics of Business Environment

Importance of Business Environment

Relationship between an Organization and its Environment

Environmental Impact and Analysis

Environmental Scanning

Macro Environment – Demographic Environment

Elements of Micro Environment

Macro Environment – Economic Environment

SWOT analysis

Macro Environment – Political-Legal and Social Environment

Macro Environment – Technological Environment

Strategic Response to the Environment

Macro Environment – Global Environment

2] Economic

Economic factors have a huge effect on the firm and its success. Some of the factors to consider when monitoring the economic environment are as follows:

Economic growth

The current phase of the Trade Cycle (Expansion, Depression, etc)

Inflation rates

Unemployment Rates

Current Interest Rates prevailing in the economy

Important factors of the specific industry

Consumer Spending potential

3] Social

Everything that goes on in a society greatly affects the organisation. Therefore, it is important to analyse social factors while studying the social environment. For example,

Demographics of the market

Consumer Buying Patterns

Religious and Cultural factors

State and influence of the media

Lifestyle trends in place at the time

4] Technological

The changes in the technological environment can be either an opportunity or a threat to the firm. Hence, some technological factors to look for are:

New production technology

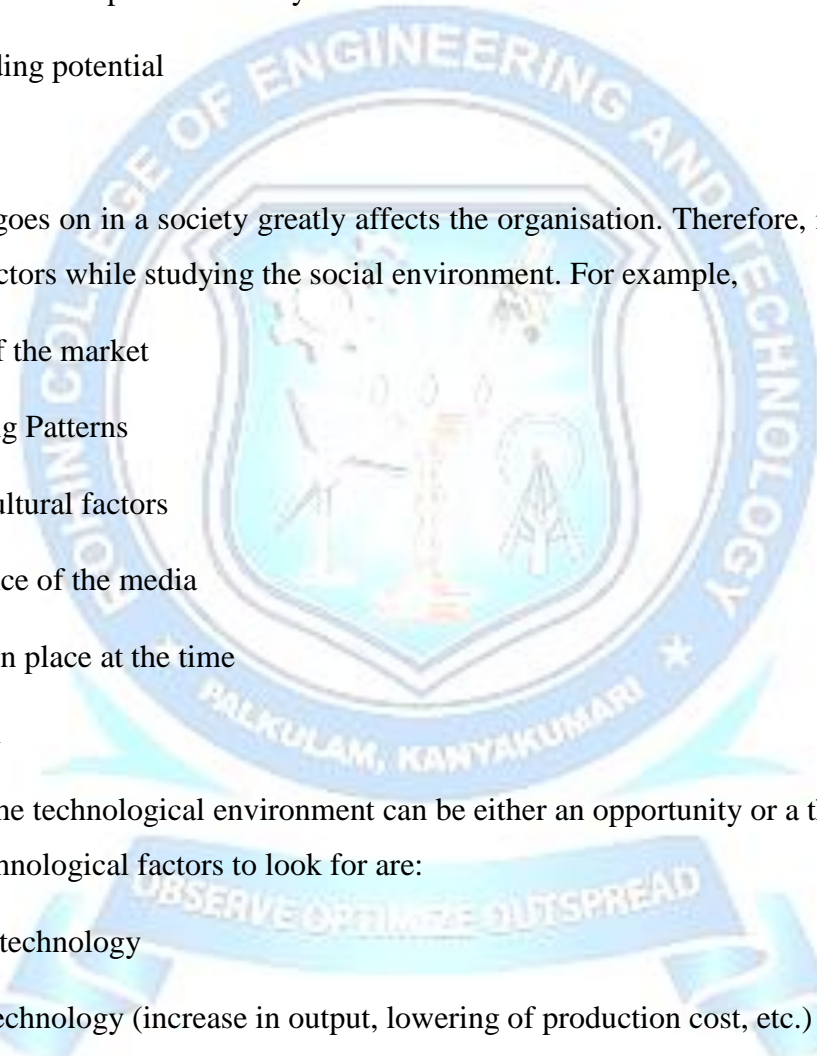
Manufacturing technology (increase in output, lowering of production cost, etc.)

New innovations

Intellectual Property, Patents, etc.

Maturity of technology

5] Legal



This refers to the laws made by the government that the company has to follow in order to continue its operations. For example,

Business Laws

Environment Laws and guides

Health and safety guidelines

International Trade Agreements and Treaties

Regional/Local Laws and Circulars

6] Environmental

These factors affect industries and their ability to function smoothly. For example, such factors are:

Environmental Issues

Energy/Power Consumption

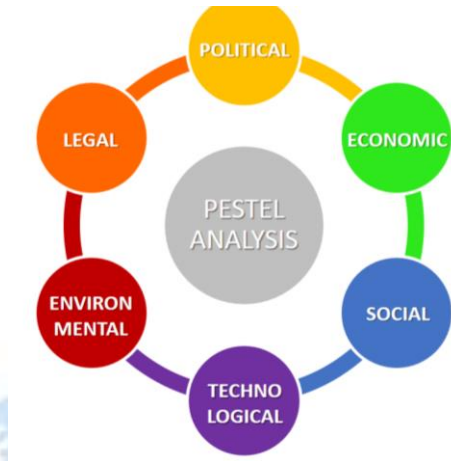
Insurance Policies

Safe Waste Disposal

Dealing with hazardous material

- ▶ **Political**
- ▶ **Economic**
- ▶ **Social**
- ▶ **Technological**
- ▶ **Legal**
- ▶ **Environmental**





MARKETING INTERFACE WITH OTHER FUNCTIONAL AREAS

- ▶ **Production**
- ▶ **Finance**
- ▶ **Human Relations Management**
- ▶ **Information System**

Marketing Interfaces with other functional areas

The marketing function within any organization does not exist in isolation. Therefore it's important to see how marketing connects with and permeates other functions within the organization. In this next section let's consider how marketing interacts with research and development, production/operations/logistics, human resources, IT and customer service. Obviously all functions within your organization should point towards the customer i.e. they are customer oriented from the warehouseman that packs the order to the customer service team member who answers any queries you might have. So let's look at these other functions and their relationship with marketing.

Research and development

Research and development is the engine within an organization which generates new ideas, innovations and creative new products and services. For example cell phone/mobile phone

manufacturers are in an industry that is ever changing and developing, and in order to survive manufacturers need to continually research and develop new software and hardware to compete in a very busy marketplace. Think about cell phones that were around three or four years ago which are now completely obsolete. The research and development process delivers new products and is continually innovating.

Innovative products and services usually result from a conscious and purposeful search for innovation opportunities which are found only within a few situations.

Peter Drucker (1999)

Research and development should be driven by the marketing concept. The needs of consumers or potential consumers should be central to any new research and development in order to deliver products that satisfy customer needs (or service of course). The practical research and development is undertaken in central research facilities belonging to companies, universities and sometimes to countries. Marketers would liaise with researchers and engineers in order to make sure that customer needs are represented. Manufacturing processes themselves could also be researched and developed based upon some aspects of the marketing mix. For example logistics (place/distribution/channel) could be researched in order to deliver products more efficiently and effectively to customers.

Production/operations/logistics

As with research and development, the operations, production and logistics functions within business need to work in cooperation with the marketing department.

Operations include many other activities such as warehousing, packaging and distribution. To an extent, operations also includes production and manufacturing, as well as logistics. Production is where goods and services are generated and made. For example an aircraft is manufactured in a factory which is in effect how it is produced i.e. production. Logistics is concerned with getting the product from production or warehousing, to retail or the consumer in the most effective and

efficient way. Today logistics would include warehousing, trains, planes and lorries as well as technology used for real-time tracking.

Obviously marketers need to sell products and services that are currently in stock or can be made within a reasonable time limit. An unworkable scenario for a business is where marketers are attempting to increase sales of a product whereby the product cannot be supplied. Perhaps there is a warehouse full of other products that our marketing campaign is ignoring.

Human resources

Human Resource Management (HRM) is the function within your organization which overlooks recruitment and selection, training, and the professional development of employees. Other related functional responsibilities include well-being, employee motivation, health and safety, performance management, and of course the function holds knowledge regarding the legal aspects of human resources.

So when you become a marketing manager you would use the HR department to help you recruit a marketing assistant for example. They would help you with scoping out the job, a person profile, a job description, and advertising the job. HR would help you to score and assess application forms, and will organise the interviews. They may offer to assist at interview and will support you as you make your job offer. You may also use HR to organise an induction for your new employee. Of course there is the other side of the coin, where HR sometimes has to get tough with underperforming employees. These are the operational roles of HR.

Your human resources Department also have a strategic role. Moving away from traditional personnel management, human resources sees people as a valuable asset to your organization. Say they will assist with a global approach to managing people and help to develop a workplace culture and environment which focuses on mission and values.

They also have an important communications role, and this is one aspect of their function which is most closely related to marketing. For example the HR department may run a staff development

programme which needs a newsletter or a presence on your intranet. This is part of your internal marketing effort.

IT (websites, intranets and extranets)

If you're reading this lesson right now you are already familiar with IT or Information Technology. To define it you need to consider elements such as computer software, information systems, computer hardware (such as the screen you are looking at), and programming languages. For our part is marketers we are concerned with how technology is used to treat information i.e. how we get information, how we process it, how we store the information, and then how we disseminate it again by voice, image or graphics. Obviously this is a huge field but for our part we need to recognise the importance of websites, intranets and extranets to the marketer. So here's a quick intro.

A website is an electronic object which is placed onto the Internet. Often websites are used by businesses for a number of reasons such as to provide information to customers. So customers can interact with the product, customers can buy a product, more importantly customers begin to build a long-term relationship with the marketing company. Information Technology underpins and supports the basis of Customer Relationship Management (CRM), a term which is investigated in later lessons.

An intranet is an internal website. An intranet is an IT supported process which supplies up-to-date information to employees of the business and other key stakeholders. For example European train operators use an intranet to give up-to-date information about trains to people on the ground supporting customers.

An extranet is an internal website which is extended outside the organization, but it is not a public website. An extranet takes one stage further and provides information directly to customers/distributors/clients. Customers are able to check availability of stock and could check purchase prices for a particular product. For example a car supermarket could check availability of cars from a wholesaler.

Customer service provision

Customer service provision is very much integrated into marketing. As with earlier lessons on what is marketing?, the exchange process, customer satisfaction and the marketing concept, customer service takes the needs of the customer as the central driver. So our customer service function revolves around a series of activities which are designed to facilitate the exchange process by making sure that customers are satisfied.

Think about a time when you had a really good customer service experience. Why were you so impressed or delighted with the customer service? You might have experienced poor customer service. Why was it the case?

Today customer service provision can be located in a central office (in your home country or overseas) or actually in the field where the product is consumed. For example you may call a software manufacturer for some advice and assistance. You may have a billing enquiry. You might even wish to cancel a contract or make changes to it. The customer service provision might be automated, it could be done solely online, or you might speak to a real person especially if you have a complex or technical need. Customer service is supported by IT to make the process of customer support more efficient and effective, and to capture and process data on particular activities. So the marketer needs to make sure that he or she is working with the customer service provision since it is a vital customer interface. The customer service provision may also provide speedy and timely information about new or developing customer needs. For example if you have a promotion which has just been launched you can use the customer service functions to help you check for early signs of success.

Finance department

The marketing department will need to work closely with the finance department to ensure that:

There is an adequate budget to meet the needs for research, promotion and distribution. The finance department has a whole organisation brief to ensure that all the business operates within its financial capabilities. They will want all departments to work within their allocated budgets. Like all departments, marketing may wish to overspend if profitable marketing opportunities emerge over the year. The marketing department is likely to concentrate on sales volume and building market share, while the finance department may be more focused on cash flow, covering costs and paying back investment as quickly as possible.

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