

## **MARKETING AUDIT- AN IMPORTANT TOOL TO DETERMINE STRENGTHS AND WEAKNESSES OF THE COMPANIES**

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### **ABSTRACT**

The marketing audit is the comprehensive assessment of all angles of marketing operation in an organization. This work needs systematic evaluation of plans, objectives, strategies, activities and organizational structure as well as marketing staff. Marketing effectiveness is a fundamental performance dimension of the marketing organization, traditionally viewed as an output variable predicated on goal attainment. Recent literature, however, has portrayed a broader conceptualization of effectiveness that disputes this strict goal attainment model. Through this paper we would like to bring into focus the broad and different aspects of marketing audit that can help an organization to understand the internal as well as external environment thus effectively analyzing its strategies and their implementation.

**KEYWORDS:** components, marketing audit, tools and techniques.

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### **INTRODUCTION TO MARKETING AUDIT**

The marketing audit is a fundamental part of the marketing planning process. It is conducted not only at the beginning of the process, but also at a series of points during the implementation of the plan. The marketing audit considers both internal and external influences on marketing planning, as well as a review of the plan itself. Here the marketing audit is used some tools to evaluate marketing performance of an organization, for example SWOT analysis for the internal environment, as well as the external environment. Other examples include PEST and Five Forces Analyses, which focus only on the external environment

To conduct an audit, according to Cambridge Dictionaries Online, is “to make an official examination of the accounts of a business” (2003). While the concept of an audit is commonly associated with the accuracy of financial reports, it is no less important for marketing. Many businesses judge the impact of their marketing program on sales numbers. While sales may be one measure of marketing effectiveness, sales data do not tell management what worked, what didn't, and what external factors impacted the results. Interpretation of sales data does not provide “report cards” for prior marketing efforts, or direction for future efforts. Whether conducted by an outside auditor or by in-house personnel, regular examinations of all aspects of the marketing function can provide information on the external environment; the internal organizational structure; and the objectives, strategies, and tactics used by a firm or a brand. Businesses that market their own brands require effective marketing planning and activities. Efficiently managing such planning and activities enables businesses to generate competitive advantages in core competences.

Wernerfelt (1984) formulated the resource-based view of firms, which views internal firm capabilities and resources as the key determinants of competitive advantage. This resource-based perspective considers resources and capabilities to be competitive advantages if they are firm specific, rare, durable and difficult to imitate or substitute (Wernerfelt, 1984; Barney, 1991; Heracleous, 2003). Using such resources and capabilities to formulate effective marketing and managerial plans can help businesses weather global economic recessions.

Marketing planning in particular requires an understanding of factors directly associated with the customer response to business marketing efforts such as advertisements, branding, pricing and promotions (Stevens et al. 2005).

Marketing auditing is the comprehensive, systematic, independent and periodic examination of the external marketing environment, internal marketing goals, objectives, operations and efficiency of a business (Kotler et al., 1977). Marketing audits encompass the entire range of marketing activities. Researchers have categorized the components of marketing audit and have developed checklists for practical use (Kotler et al., 1977; Schewe et al., 1983; Cohen, 1991; McCarthy et al., 1993).

### **CHARACTERISTICS OF MARKETING AUDIT**

- Comprehensive. The marketing audit covers all the major marketing issues facing an organization, and not only one or a few marketing trouble spots. The latter would be called a functional audit if it covered only the sales force, or pricing, or some other marketing activity.
- Systematic. The marketing audit involves an orderly sequence of diagnostic steps covering the organization's marketing environment, internal marketing system, and specific marketing activities. The diagnosis is followed by a corrective action plan involving both short-run and long-run proposals to improve the markets.
- Independent. The marketing audit is normally conducted by an inside or outside party who has sufficient independence from the marketing department to attain top management's confidence and the needed objectivity.
- Periodic. The marketing audit should normally be carried out periodically instead of only when there is a crisis. It promises benefits for the organization that is seemingly successful, as well as the one that is in deep trouble.

### **OTHER CHARACTERISTICS**

- Environment – the circumstances or conditions surrounding the agency, both within and without
- Objective – worked toward or striven for and measurable
- Strategies – plans of action
- Activities – specified and supervised fields of action
- Resources – an available supply that can be drawn on when needed
- Problem areas – situations that present uncertainty, perplexity or difficulty

- Plan of action – process of doing or performing

From this overall definition and sum of its parts, it can be seen that the marketing audit provides a very complete assessment the environment. In that situation most of the organization has chosen to operate a business.

### **ADVANTAGES OF MARKETING AUDIT**

A marketing audit can be defined as a systematic, periodic and a comprehensive procedure of checking out the marketing activities of a concern. Some of the other benefits and advantages of marketing audit are as follows.

- The audit provides the marketers with an in depth view of the marketing activities that are going around in the concern. It brings out a complete picture of the entire operations of the concern. While revealing the various drawbacks the audit process also leads to efficiency. This process can also be used to lay down an improved marketing plan.
- A marketing audit can help a company refine its business practices and improve its productivity and profitability.
- Marketing audit helps to marketing executives, top management and investors to ensure that they are doing the right things to help drive growth for their organizations.
- A marketing audit is a careful examination and evaluation of marketing practices and results. It offers a baseline for performance measurements and a framework for effective business planning to maximize positive external perception and demand generation.
- An audit helps the company determine the value of a sale and a sales lead.
- There are no permanent "right" answers in marketing. Customers' needs and wants are moving targets, and marketing programs require testing and retesting to find the most profitable formula. A marketing audit is the way to achieve success by providing an interim report card to help the company and their staffs tap into inherent resource.
- Marketing audits often lead to strategic marketing change. Careful assessment of the changing environment, customers, channels, and competitors may lead to a reassessment of firm direction,

### **THE CURRENT SCENARIO OF THE MARKETING AUDIT**

The marketing audit is a generally accepted method of evaluation and a control mechanism of marketing performance. In 1967, Kotler dedicated a full chapter of Marketing Management: Analysis, Planning, and Control to the marketing audit and identified it as “something apart from and more comprehensive than the other control efforts of the firm” (p 594). Ten years later the publication of “The Marketing Audit comes of Age” (Kotler, Gregor and Rodgers 1977) was a turning point in the development of the marketing audit. It provided a definition that after twenty years still remains current. It also suggested the process and the organisation as well as the potential problems in conducting an audit. This work has become a major source of reference for many authors who contributed to the further development of the marketing audit (Brownlie 1996a).

Consumers' change of tastes and preferences, accelerating technological breakthroughs, and the increasing intensity of competition in many and especially growing industries necessitated a change of attitude and direction by some companies to incorporate more attacking and defensive measures in the planning and implementation of their marketing efforts (Sutcliffe 1975, Brownlie 1993, Kotler, FitzRoy, and Shaw 1980).

Although the basic premises of the marketing audit have remained as Kotler, Gregor and Rodgers (1977) suggested, many authors have contributed to the development and further refinement of different aspects of the audit. Brownlie (1993) suggested a strategic role for the marketing audit as an instrument of intervention and change. Many authors have elaborated on general parameters for a set of guidelines, to encourage uniformity and commonality in conducting the audit. The use of a structured questionnaire to assist with the collection of uniform information (Kotler 1993) and the use of a checklist of diagnostic questions (Wilson 1993, Brownlie 1993) have been recommended. The marketing audit has also been considered as a necessary part of the marketing planning process. It has been suggested that the scope and nature of the marketing audit need to be broadened to include a global perspective (Rothe, Harvey and Jackson 1997). Some authoritative writers on the subject (Kotler 1977, Wilson 1993, Brownlie 1996b) view the marketing audit as an instrument to judge an organization's overall commitment to a marketing orientation.

## **LITERATURE REVIEW**

To cope with and to exploit the opportunities created by the rapid changes in the marketing environment requires a substantial amount of accurate, comprehensive and action-oriented information. This information needs to be continually collected, analyzed, and disseminated to all managers in the organization who are involved in planning and contributing to the implementation, coordination and control of marketing activities (Jaworski et al 1993, McDonald 1996, Reed 1992, Pulendran 1996).

Some of the management's needs for continually updated information is provided through Marketing Information Systems (MkIS) and Marketing Decision Support Systems (MkDSS). But these technologically assisted information sources, although providing a substantial amount of information, do little more than the processing of historical and current information. The proper use of these techniques as decision-making tools requires analysis and interpretation of the information by the user. The more advanced method, Intelligent Marketing Information Systems (IMkIS) incorporates the capabilities of (MkIS) and Artificial Intelligence to provide management not only with data, but action oriented information. This system, however, has its limitation in being too narrow and lacking in wide application as a decision making tool (Amaravandi, Samaddar and Dutta 1995, Buttery and Tamaschke 1995).

Additionally, to apply short term reactive measures only to combat immediate problems would not be in the best interest of the long-term viability of an organization. To assist with the understanding of the substantial changes occurring in the internal and external marketing environments needed additional tools and processes. A deep and objective look at marketing objectives, strategies, policies and organization on a recurrent basis (Kotler et al 1977) would be a way to help managers to bring a company's offering in line with the market condition and expectations. The marketing audit, at the same time, can be an "efficient process for developing effective measures and actions" (Bonoma 1988, p39). The market volatility in the

1970's resulted in increasing awareness of and interest in, the marketing audit by management (Kotler et al 1997).

The marketing audit is regarded as having four major characteristics (Kotler, Gregor and Rodgers 1977): It should be comprehensive and broad in focus covering the entire marketing environment of the company. It should be an objective exercise and independent of the managers directly involved in making the marketing decisions.

It should be a systematic and orderly sequence of diagnostic steps as compared to an unstructured and random investigation. It should be carried out periodically. The marketing audit should be undertaken on a regular basis and not only when major problems arise.

Considering these characteristics, Kotler et al (1977, p 29) formulated a definition for the marketing audit that, after 20 years still remains current. "A marketing audit is a comprehensive, systematic, independent, and periodic examination of a company's - or business unit's - marketing environment, objectives, strategies, and activities with a view of determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance".

There is no consensus in the process of conducting a marketing audit (Brownlie 1996b, McDonald and Leppard 1991). Marketing auditors, therefore, need to improvise their own specific method of conducting an audit based on a given situation and a specific task at hand (Brownlie 1996b).

There has been a consistent attempt by writers in the field to introduce general and broad parameters to encourage uniformity in the implementation of the marketing audit. Many authors advocate the use of a series of questionnaires in conducting a marketing audit (Kotler 1997, Brownlie 1996b). The auditor can use structured questionnaires to collect uniform information from relevant internal and external sources.

Wilson suggests the use of a checklist of diagnostic questions. Wilson's marketing checklist (1982) was revised in 1993 and offers a comprehensive, but not exhaustive list of questions for the marketing auditor to use. According to Wilson (1993), the auditor should use the checklist to collect data on a company's marketing operations and then compare the results to a set of benchmarks or expectations, which have been developed for the industry and the firm. This procedure also highlights the importance of establishing benchmarks.

The checklist, according to Brownlie (1996a), should be considered as a starting point and modified and tailored to suit the specific requirements of each audit situation. The major benefit of the checklist approach is to ensure that no important item is overlooked (Brownlie 1993).

Authoritative writers on the subject (Kotler 1977, Wilson 1993, Brownlie 1996) view the marketing audit as an instrument to judge an organization's: overall commitment to marketing orientation extent to which marketing objectives have been achieved appropriateness of the marketing strategic directions and tactical details.

Others have considered the marketing audit as a necessary part of the marketing planning process (McDonald 1984; Kotler 1988; Enis and Garfein 1992). The major issue with the current use of the marketing audit, apart from the lack of an acceptable uniformity and consistency in procedure in conducting it, is that it is costly to conduct a full audit and, therefore, it may not be used frequently.

## **LIMITATIONS OF CURRENT LITERATURE**

The literature basically deals with theoretical and conceptual aspects of the marketing audit. There are no contradictory views about the marketing audit's potential benefits. Since 1977 when Kotler, Gregor, and Rodgers published "The Marketing audit Comes of Age", there has been only further elaboration of the concept (McDonald 1996, Brownlie 1993). The contributions by some authors have also been concentrated on providing advice on the logical and anecdotal usefulness of the marketing audit by providing isolated case studies and examples as part of the marketing planning process (Solod 1996, McGlinchey 1996, Lemmon 1996, and many more).

However, there is an apparent lack of an overall empirical study, in the published literature, of the application of the marketing audit, its realized benefits in improving management's decision making effectiveness, and management's evaluation of the audit.

Some of the current textbooks being used in universities present the marketing audit as a method of evaluation and a control mechanism and recommend it as a necessary part of the marketing planning process. However, there is no validation of the general practice of the marketing audit. The same situation exists in the major articles that have appeared in the marketing journals over the last few years. These articles predominantly describe and discuss the concept of the marketing audit and provide elaboration on different components and its related concepts

## **COMPONENT OF THE MARKETING AUDIT**

Marketing audit should start with the market place at beginning and should explore the changes that are happening in the marketplace. Then the marketing audit will move to examine the company's marketing objectives and strategies, organization and systems. The marketing auditor may move to examine one or two key functions in more detail that are important to the marketing performance of the company. The marketing audit follows the following areas as components of marketing audit:

1. Environmental Audit
2. Macro Environmental Audit
3. Task Environmental Audit
4. Marketing Strategy Audit
5. Marketing Organization Audit
6. Marketing System Audit
7. Marketing Productivity Audit
8. Marketing Functions Audit

## **1. MARKETING ENVIRONMENT AUDIT**

The auditor is firstly started their audit by looking at the factors that affect all companies operating in marketplace, and also looking at their customers and their profits. Under marketing environment audit, following two environments are concerned, because these are very important under the marketing audit.

### **• THE MACRO-ENVIRONMENT**

The Macro-environmental component examines six main areas, the detail depending on the involvement of the business and involvement required by the industry. Under marketing audit, the macro environment covers some environmental factors, like, Demographics – major demographic developments and trends pose opportunities, Economical factors - developments in income, prices, savings and credit will affect the company under that, Environmental factors, Technological factors - changes occurring in product and process technology and company's position in these technologies, Political factors - changes in laws and regulations might affect marketing strategy and tactics and the changes in the areas of pollution control, equal employment opportunity, product safety, advertising, price control, that affects the marketing strategy of company, Cultural - public's attitude towards business and toward the company's products and changes in customer lifestyles and values might affect the company,

### **• THE TASK ENVIRONMENT**

How competitive is the marketplace? What are competitors doing, and are they doing it well? What might they be preparing to do? These are all vital to understand in preparing yourselves for the battle. The task environment audit is evaluated under Markets - market size, growth, geographical distribution and profits and major market segments, under customers - customers' needs and buying processes and also product quality, service, sales force and price, Competitors, Distribution & dealers, Suppliers, Facilitators & marketing firms and Publics.

## **2. MARKETING STRATEGY AUDIT**

The marketing strategy audit is vital for company, and the marketing audit is make sure that the company's marketing strategy is fit with company's marketing goals and objectives as well as corporate goals and objectives. Under the marketing strategy audit, the auditor evaluate marketing performance by evaluating marketing goals and objectives, company mission the move to the strategy of organization. Under strategy evaluation, the auditor may concern following type of questions:

- Has the management articulated a clear marketing strategy for achieving its marketing objectives?
- Is the strategy convincing?
- Is the company using the best basis for market segmentation?
- Does the company have clear criteria for rating the segments?

- Has the company developed an effective positioning and marketing mix for each target segment?

### **3. MARKETING ORGANIZATION AUDIT**

The marketing organization audit is mainly considered effectiveness of the organization activities as well as efficiency of operation of company. Here all the activities and main management functions are considered such as manufacturing, purchasing, financing as well as research and development. Here the marketing auditor must make sure that the company is actually achieved the effectiveness within the organization and also within the marketplace. And also following types of questions are considered by marketing auditors:

Are there good communications and working relations between marketing and sales?

- Is the product-management system working effectively?
- Are product managers able to plan profits or only sales volumes?

### **4. MARKETING SYSTEM AUDIT**

Here the marketing auditor is considered whether the company is using appropriate marketing systems to collect the information, plan the activities, control the operations and to maintain smoothly their day to day activities and whether these systems are properly worded within the company or not. Those are the main things, the marketing auditor must consider under marketing systems audit. Most of the organizations are today having different type of marketing systems to collect the information and control the operation. Such as marketing information systems, marketing planning systems, marketing control systems and new product development systems. These systems have its own functions. Here the marketing auditor task is to make sure whether the systems are properly worked or not.

### **5. MARKETING PRODUCTIVITY AUDIT**

Most of the companies are operating to earn so much of profits. The marketing productivity audit is focused on evaluate the company profits and revenue. So the marketing productivity audit is very important to evaluate the marketing performance. The marketing auditor is used profitability analysis and cost effectiveness analysis for their evaluation process. Under the marketing productivity audit, following type question asked by marketing auditor:

- What is the profitability of the company's different products, markets, territories and channels of distribution?
- Should the company enter, expand, contract or withdraw from any business segments?
- Do any marketing activities seem to have excessive costs?
- Can cost-reducing steps be taken?

## **6. MARKETING FUNCTION AUDIT**

Under the marketing function audit, the auditor is using marketing mix elements to analyze company functions such as product, price, place and promotion. Here marketing auditor evaluates marketing performance by asking questions under product, price, place and promotion such as

- What are the company's product-line objectives?
- Which products should be phased out?
- Which products should be added to?
- What are the company's pricing objectives, policies, strategies and procedures?
- To what extent are the prices set on cost, demand and competitive criteria?
- Do the customers see the company's prices as being in line with the value of its offer?
- What is the organization's advertising objectives?
- Is there adequate market coverage and service?
- Should the company consider changing its distribution channels?
- Is the right amount being spent on advertising?
- What do customers and the public think about the advertising?

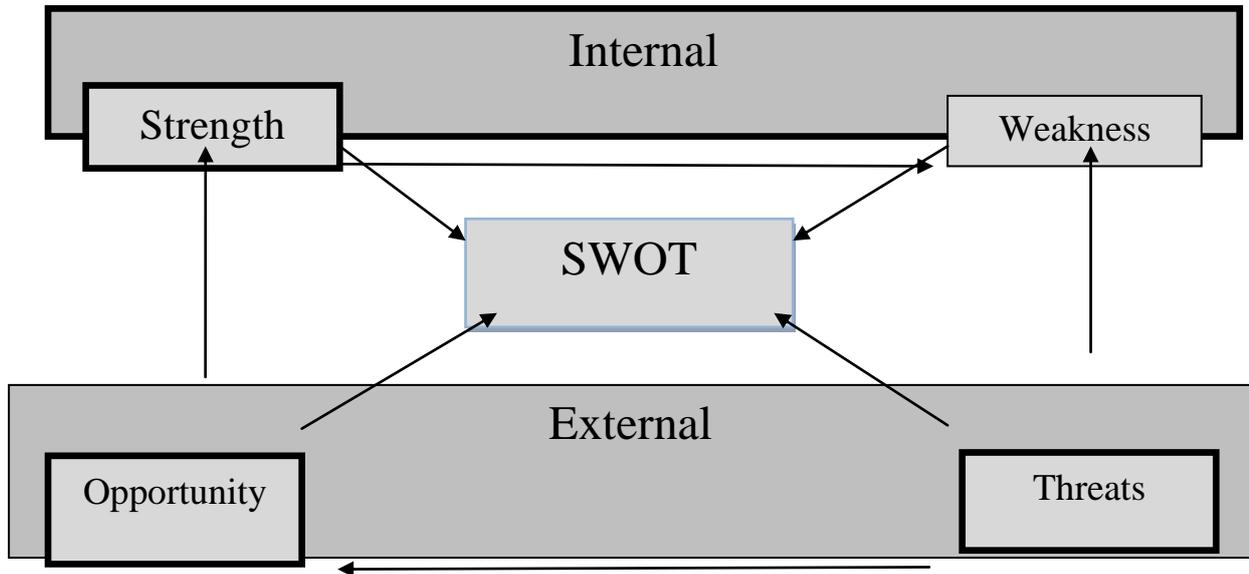
## **MARKETING AUDIT TOOLS AND TECHNIQUES**

Marketing audit is very important and crucial part in the marketing planning process. It is not only carried out at the beginning of the marketing planning process but also it can be implemented during the marketing planning process. The marketing audit can be influenced on marketing planning process through various external and internal factors. Here there are number of marketing audit tools and techniques that are used during the marketing planning process to evaluate the marketing performance of an organization. The following analysis tools are utilized during a marketing audit:

### **➤ SWOT ANALYSIS**

The one of the most importance tools in the marketing audit is SWOT analysis or can be express as Strength, Weaknesses, Opportunities and Treats analysis. This tool is very much important to marketers and is used at the beginning of the marketing audit process. The SWOT has lot of advantage as well as it has some disadvantages. Some of disadvantage of SWOT analysis are that it is very subjective and cannot be relied on too much. However, most of the companies are used this SWOT analysis as tools to evaluate the marketing performance of an organization. SWOT stands for strengths, weaknesses, opportunities, and threats. Strengths and weaknesses are internal factors. Opportunities and threats are external factors. The SWOT analysis can be express as below:-

Strengths and weaknesses are internal factors that create value or destroy value. They can include assets, skills, or resources that a company has at its disposal, compared to its competitors. They can be measured using internal assessments or external benchmarking.



Some strengths of an organization are as follows::

- ✓ Your specialist marketing expertise
- ✓ A new, innovative product or service
- ✓ Location of your business
- ✓ Quality processes and procedures
- ✓ Any other aspect of your business that adds value to your product or service

Some weaknesses of an organization are as follows:

- ✗ Lack of marketing expertise
- ✗ Undifferentiated products or services (i.e. in relation to competitors)
- ✗ Location of your business
- ✗ Poor quality goods or services
- ✗ Damaged reputation

Opportunities and threats are external factors that create value or destroy value. A company cannot control them. But they emerge from either the competitive dynamics of the industry/market or from demographic, economic, political, technical, social, legal or cultural factors (PEST).

Some opportunities of an organization are as follows :

- ❖ A developing market such as the Internet
- ❖ Mergers, joint ventures or strategic alliances
- ❖ Moving into new market segments that offer improved profits
- ❖ A new international market
- ❖ A market vacated by an ineffective competitor

Some threats of an organization are as follows:

- A new competitor in your home market.
- Price wars with competitors.
- A competitor has a new, innovative product or service.
- Competitors have superior access to channels of distribution.
- Taxation is introduced on your product or service.

## T W O S MATRIX

The auditor can use this TWOS analysis to analyze external environment (threats and opportunities), and internal environment (weaknesses and strengths). The auditor can use this technique to think about the strategy of whole organization, a department or a team. Auditor can also use them to think about a process, a marketing campaign, or even company own skills and experience.

TOWS Matrix, helps the auditor to think about the options that company could pursue. To do this auditor match external opportunities and threats with company internal strengths and weaknesses, as illustrated in the matrix follows:

### TOWS STRATEGIC ALTERNATIVES MATRIX

|                               | <b>External Opportunities (O)</b>                            | <b>External Threats (T)</b>                                  |
|-------------------------------|--|--|
|                               | 1.   | 1.   |
|                               | 2.   | 2.   |
|                               | 3.   | 3.   |
|                               | 4.   | 4.   |
| <b>Internal Strengths (S)</b> | <b>SO</b>  | <b>ST</b>  |
| 1.                            | "Maxi-Maxi" Strategy<br>Strategies that <b>use strengths</b> | "Maxi-Mini" Strategy<br>Strategies that <b>use strengths</b> |

|                                |  |   |
|--------------------------------|--|---|
| 2.                             | to <b>maximize Opportunities.</b>  | to <b>Minimize threats.</b>                                   |
| 3.                             |  |   |
| 4.                             |  |   |
| <b>Internal Weaknesses (W)</b> | <b>WO</b>  | <b>WT</b>   |
| 1.                             | "Mini-Maxi" Strategy   | "Mini-Mini" Strategy  |
| 2.                             | Strategies that <b>minimize weaknesses by taking advantage of opportunities.</b> | Strategies that <b>minimize weaknesses and avoid threats.</b> |
| 3.                             |  |   |
| 4.                             |  |   |

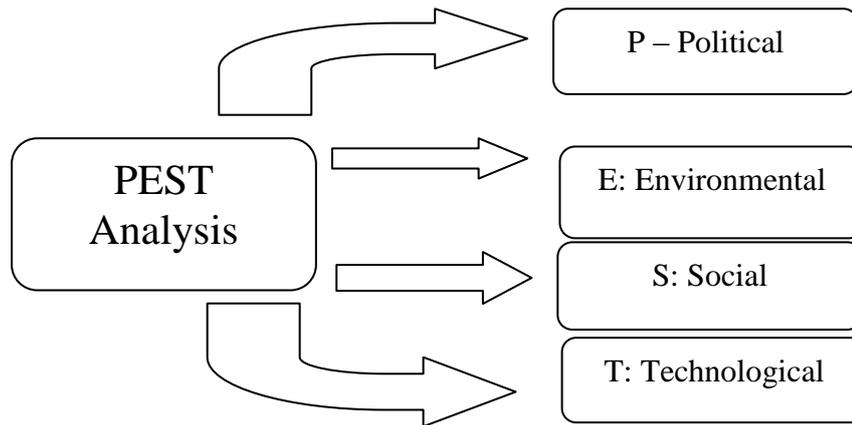
This helps the auditor to identify strategic alternatives that address the following additional questions:

- Strengths and Opportunities (SO) - How can company use their strengths to take advantage of the opportunities?
- Strengths and Threats (ST) - How can the company take advantage of their strengths to avoid real and potential threats?
- Weaknesses and Opportunities (WO) - How can company use their opportunities to overcome the weaknesses company is experiencing?
- Weaknesses and Threats (WT) - How can company minimize their weaknesses and avoid threats?

## **PEST ANALYSIS**

Here a marketing analysis should be taken into consideration all the environmental factors and will give it a careful analysis. These environmental factors may be internal or external. The internal factors consist of the staff and queries related to them. The external would be the external customer and the various distributors and the political and economic factors are also taken into consideration.

This PEST analysis has various factors that have an effect on the marketing planning process. The PEST analysis tool is a valuable framework for identifying opportunities and threats in the macro (external) environment. It works through the various components of the macro environment and prompts the company to look at the specific areas in depth. This analysis tool is extremely important to any marketing audit, simple or complex; as it drives the company to investigate what factors may help or impede them to carry out business and marketing activities. The PEST analysis can be express as follows.



### ✓ **POLITICAL FACTORS**

Political factors can have a direct impact on the way business operates. Decisions made by government affect the operations of units within the company to a varying degree. Political refers to the big and small 'p' political forces and influences that may affect the performance of, or the options open to the unit concerned. The political factors have a huge influence upon the regulation of public and private sector businesses, and the spending power of consumers and other businesses. Political factors include government regulations and legal issues and define both formal and informal rules.

### ✓ **ECONOMIC FACTORS**

All businesses are affected by economical factors nationally and globally. Whether an economy is in a boom, recession or recovery will also affect consumer confidence and behavior. This will impact upon the nature of the competition faced by the company and particular units within the company, upon service provision, and upon the financial resources. Economic factors affect the purchasing power of potential customers, and the state of the internal/external economy in the short and long-term. The unit may need to consider: economic growth, interest rates, inflation rate and inflation rate.

### ✓ **SOCIAL /CULTURAL FACTORS**

Social factors will include the demographic changes, trends in the way people live, work and think and cultural aspects of the macro environment. These factors affect customer needs and the size of potential markets such as population growth rate, age distribution, career attitudes, internal/external emphasis on safety and internal/external attitudes to change.

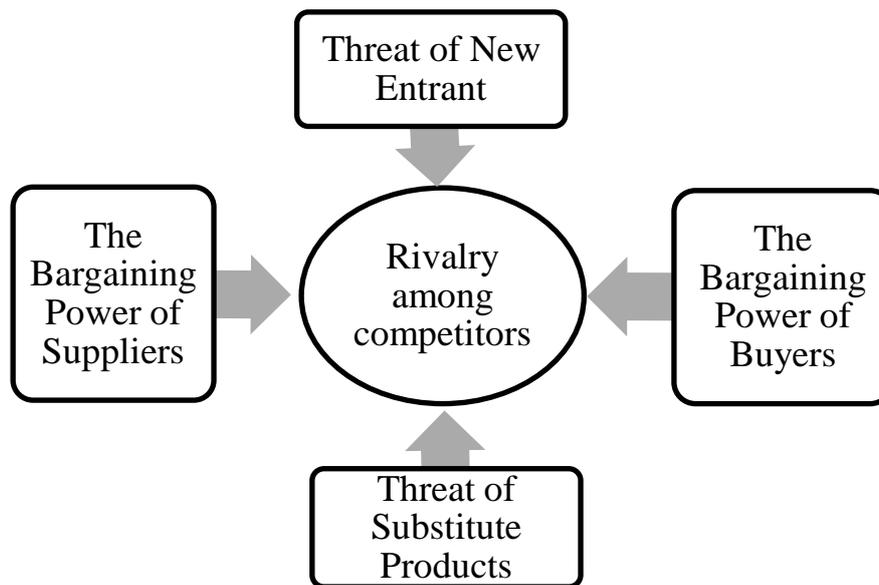
### ✓ **TECHNOLOGICAL FACTORS**

New approaches to doing new and old things and tackling new and old problems do not necessarily involve technical factors, however, technological factors are vital for competitive advantage, and are a major driver of change and efficiency. Technological; factors can for example lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. New technology is changing the way business operates. The Internet is having a profound impact on the strategy of organizations. Technological revolution means a faster exchange of information beneficial for businesses as they can react quickly to changes

within their operating environment. For examples automation, technology incentives, rate of technological change, perception of technological change within the unit and stakeholder expectation.

## **FIVE FORCE MODEL**

This Five Force analysis is very effective analysis that enables the marketer to have a clear picture of the competition and it can measure the attractiveness of the industry. In this analysis the marketer basically goes through five basic areas of concern. The areas can be identified into five areas among competitors, bargaining power of customers and bargaining power of suppliers. There are some advantages in this analysis; it leads to economics of large scale with the help of mass purchasing and sales. This is also very effective analysis to audit the marketing performance of an organization.



### **✓ THE THREAT OF SUBSTITUTE**

The existence of close substitute products increases the propensity of customers to switch to alternatives in response to price increases (high elasticity of demand)

- buyer propensity to substitute
- relative price performance of substitutes

### **✓ THREATS OF NEW ENTRANT**

Profitable markets that yield high returns will draw firms. This results in many new entrants, which will effectively decrease profitability. Unless the entry of new firms can be blocked by incumbents, the profit rate will fall towards a competitive level (perfect competition).

- The existence of barriers to entry (patents, rights, etc.)
- Economies of product differences
- Brand equity

✓ **RIVALRY AMONG COMPETITORS**

For most industries, this is the major determinant of the competitiveness of the industry. Sometimes rivals compete aggressively and sometimes rivals compete in non-price dimensions such as innovation, marketing, etc.

- Number of competitors
- Rate of industry growth
- Intermittent industry overcapacity

✓ **THE BARGAINING POWER OF BUYERS**

The ability of customers to put the firm under pressure and it also affects the customer's sensitivity to price changes.

- Buyer concentration to firm concentration ratio
- Degree of dependency upon existing channels of distribution

✓ **THE BARGAINING POWER OF SUPPLIERS**

Suppliers of raw materials, components, labor, and services (such as expertise) to the firm can be a source of power over the firm. Suppliers may refuse to work with the firm, or e.g. charge excessively high prices for unique resources.

- Supplier switching costs relative to firm switching costs
- Degree of differentiation of inputs
- Presence of substitute inputs
- Supplier concentration to firm concentration ratio

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