Strategy, Marketing Plans and Small Organisations

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CONTENTS

1 STRATEGIC PLANNING

1.1 LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Explain the concept of strategy
- Examine different schools of thought on planning
- Compare and contrast the rational planning and processual views of planning
- Evaluate key influences on the strategic planning process

1.2 THE CONCEPT OF STRATEGY

Numerous perspectives on strategy and numerous definitions of the term 'strategy' exist (Mair, 1999). The term 'strategy' refers to the direction and scope of an organisation over the long term, and strategic decisions are generally broad, encompassing details about product range, market scope and competitive approach (Wickham, 1998). According to Porter (1996), strategy refers to the quest for competitive advantage. In the planning school of thought (Ansoff, 1965, Chandler, 1962) the term 'strategy' is usually defined as a formal plan, and planners perform a detailed analysis of the company, its product-market and its environment (Lambkin, 1997). Chandler (1962, p. 13) describes strategy as follows:

> "Strategy is the determination of the basic long-term goals of an enterprise and the adoption of course of action and the allocation of resources necessary for carrying out these goals."

Strategic planning can be defined as "…the management of any business unit in the dual tasks of anticipating and responding to changes which affect the marketplace for their products." (Abell, 1980, p. 279). Lambkin (1997) outlines the characteristics of strategic planning:

- Analysis-oriented
- New opportunities
- Product-market variables
- Dynamic environment
- Proactive behaviour
- Longer range management
- Cross-functional organisation

The planning model of strategy assumes that the top managers and the external environment are the most important determinants of strategy (Ansoff, 1965). This model of strategy is based on a rational model of decision-making and it is assumed that managers will act in the interests of the organization, and that they have the time and ability to gather information and process it, and will seek to exploit opportunities and minimize risk or threats.

Strategic planning is relevant to all organisations. The Australian Festival of Chamber Music (AFCM) is a registered charity and not-for-profit organisation that hosts Australia's largest chamber music festival in Townsville, North Queensland. Townsville is a tropical city with easy access to islands, the outback, rainforests and the Great Barrier Reef. Recognising that their core chamber music audience is not large, senior management decided to target a second tier of consumers, the 'light classical music consumers'. It was anticipated that these consumers would value a combination of fine music with a holiday in a tropical destination. A new product, the festival holiday package, was designed in order to create a unique festival experience and grow the number of interstate and international audience numbers. According to the Marketing Manager, a key objective of the AFCM is "to leverage the unique setting and the warm winter climate and promote holidays that combine Festival attendance and holidaying in North Queensland. Our key targets are Brisbane, Sydney, Melbourne and New Zealand, plus the Queensland drive market. We will continue to work with SeaLink and Australian Holiday Centre to create and sell the holiday packages" (Helft, 2014).

Figure 1.1: The AFCM has a three year strategic plan
Source: Andrew Rankin, Australian Festival of Chamber Music

1.3 THE PROCESS SCHOOL OF THOUGHT

Opponents to the planning school of thought have cast doubt on the power of planning in today's marketplace. It has been pointed out that managers do not have the time and ability to process large amounts of information (Simon, 1957). Decision makers are subject to cognitive biases (Schenk, 1984; Staw, 1981) act irrationally and therefore make poor decisions. It is argued that a rapidly changing environment often renders planning ineffective. Strategic planning involves dealing with the future, no facts are truly "known" and the unforeseen event is bound to happen sooner or later (Brouthers et al., 1998).

A major drawback of the planning school of thought is the sharp emphasis on the analytical aspects of strategy making rather than the creative aspects of strategy making, when both aspects are clearly needed in any thoughtful strategy-making process (Liedtka, 1998). Hamel (1996) has argued that planning does not yield strategy: "Strategizing is not a rote procedure – it is a quest" (Hamel, 1986, p. 71). Campbell and Alexander (1997, p. 42) point out that:

> "Many planning sessions result in no new actions, and the plans themselves often end up buried in bottom drawers."

For Henry Mintzberg (1994), strategic planning is an analytical, intellectual process and the outcome is a plan. *Strategic thinking* is predicated on intuition and creativity and the outcome is an integrated perspective of the enterprise. He argues that rather than occurring side-by-side, traditional planning tends to drive out strategic thinking. Mintzberg (1979) proposes that where the central purpose of the organization is to innovate, the result of its effort can never be predetermined and therefore strategy has to emerge over time.

New definitions of the old term "strategy" are emerging and indeed Mair (1999) has identified many different perspectives on strategy. Mintzberg (1985) has identifed ten schools of thought on strategy formulation, only one of which is the planning school. Mintzberg and Waters (1985) argued that real-world strategies lie on a continuum between deliberate (or intended) strategies and emergent strategies that are realised despite, or in the absence of, intentions. So at one extreme, strategies can be devised and implemented according to plan, and at the other extreme, strategies simply emerge without any form of planning. Porter's (1980, 1996) definition of strategy does not require planning, only an identifiable product-market scope and a basis for competitive advantage. In his paper "what is strategy?" Porter (1996, p. 64) argues that "the essence of strategy is choosing to perform activities differently than rivals do", and he goes on to state that this requires creativity and insight. New entrants often discover unique positions that have been overlooked by established competitors or that open up because of change. Strategy also entails making trade-offs, such as serving one group of customers and excluding others. Pettigrew and Whipp (1991, p. 12) argue that:-

> "…strategy does not move forward in a direct, linear way and not through easily identifiable sequential phases…the pattern is much more appropriately seen as continuous, iterative and uncertain."

Hamel (1996) also argues that the development of a strategy is a complex and open-ended process where it is impossible to predict the end from the beginning. While writers in the planning school of thought focus on the organisation's external environment as a driver of strategy, writers in the process school of thought focus on the organisation's internal environment as a driver of strategy, with dimensions such as culture (Peters and Waterman, 1982), politics (Pfefffer, 1981) and learning (Quinn, 1980) being the focus of researchers' attention. Small firms are inclined to be less political than large firms due to their size (Brouthers et al., 1998); a great deal of learning takes place when the founder interacts with customers, suppliers, intermediaries, and founders learn from their mistakes and through experience (Gibb, 2000); small firms tend to have a distinctive culture (Gibb, 2000) which is characterized as informal, trusting, intuitive, flexible, holistic, with strong feelings of ownership and control.

Differences between the planning and process school of thought

There are key differences between the planning and process school of thoughts. Table 1 summarises the main differences between the planning and process school of thought.

Characteristics	Strategy as a plan	Strategy as a process
Power and decision-making	Top-down, driven by top management	Bottom-up, driven by employees as well as top management
Focus	Mainly external, control over external environment	Mainly internal, social control
Degree of formality, process and outcomes	Written document A single optimal plan Extensive search for information Use of tools such as BCG (Boston Consulting Group Matrix), SWOT (strengths, weaknesses, opportunities and threats) and PLC (product life cycle). Extrapolation, forecasting Analytical and intellectual	In the mind of the strategist Many possible strategies Informal Scenario planning Exploration, experimentation, vision, learning, instinct and creativity

Table 1.1: Main differences between the planning and process school of thought
Source: author-derived

Power and decision making

Understanding the nature of power is central towards gaining an understanding of how strategies are formed in organisations. According to Biggart and Hamilton (1984, p. 540), power can be defined in very simple terms:

> "Theorists largely agree that individual power in organizations is the ability to control others, to exercise discretion, to get one's own way".

Kanter (1984) proposes that power in organizations is derived from access to information, support, resources, opportunity, and proportions.

Traditionally, the formulation of strategy was seen as the preserve of top managers (Chaffee, 1985) since they possessed the legitimate power to make decisions (Weber, 1921, p. 1968). Decision-making was seen as a hierarchical or 'top-down' process. Similar assumptions about power are made in the literature on entrepreneurship. Entrepreneurial discourse (as set out by Gasse, 1977, Kets de Vries, 1977 and Brockhaus, 1982, Mintzberg and Waters, 1985) has emphasized the critical role played by the entrepreneur in the management of the enterprise and various studies list the traits associated with entrepreneurs such as need for autonomy, assertiveness, dominance. Carland et al., (1989, p. 2) highlights the power held by the entrepreneur in terms of initiating planning:

> "The individual responsible for planning in a small firm is the owner-manager. If that individual is not predisposed to planning, this activity will not take place…personality will play a key role in that predisposition".

Writers who view strategy in terms of an emergent process have demonstrated that strategy-making could be a 'bottom-up' process and not just a 'top-down' process, and thus strategy could emerge over time. Mair (1999) in his review of the Honda case, showed how employees had a role to play in the formulation of strategy. A bottom-up view of strategy opens up strategic planning to employees and other stakeholders – it is not just top management who formulate strategy.

Focus: External or Internal

The planning model of strategy assumes that external forces, i.e., forces arising from the external environment, have a critical impact on strategy formulation process (Ansoff, 1965; Andrews, 1980). Strategic planning involves anticipating and responding to changes that affect the marketplace for the firm's products (Abell, 1980). Change can stem from the competitive, political, economic, social and technological environment (Hill and Jones, 2000). Influence on strategic decision-making also comes from stakeholders, such as suppliers, customers, unions and government agencies. Firms are dependent on the external environment for various resources, for legitimacy, and for the sale of their products (Pfeffer and Salancik, 1978). As a result, external groups have "power" over the firm (Porter, 1980) and may influence the decisions managers make.

Writers in the process school of thought place emphasis on internal forces. They have a sought an explanation for competitive advantage by exploring factors such as organizational culture (Peters and Waterman, 1982), politics (Pfeffffer, 1981) and learning (Quinn, 1980). These writers have outlined the difficulties involved in planning a strategy and then trying to implement it as planned. They argue that the dichotomy between thinking and acting is problematic given the internal dynamics of the firm. Indeed, the need for new strategies may not even be recognized due to the development of a particular mindset or culture over time. Prahalad and Hamel's (1990) work on core competencies is quite significant. It is generally believed that the most important resources and capabilities are those which are most difficult for competitors to imitate; difficult to understand; provide potential access to a wide variety of markets; make a significant contribution to the perceived customer benefits of the end product, and are very durable.

Some organizational theorists ask the question: are managers really in a position to manage the environment? An extreme view is that organizations have little ability to create a strategy given that they are so overwhelmed by external forces. Writers in the population ecology and resource dependency school of thought (Child, 1972; Aldrich, 1979; Hannon and Freeman, 1989; Carroll, 1993; Pfeffer and Salancik, 1978) suggest that there are deterministic forces at work that make strategic planning and strategy largely redundant (see Morgan, 1997, for a summary of population ecology theory). Management theorists, however, adopt a more voluntaristic perspective, and argue that managers and entrepreneurs do have choices and can influence organizational outcomes.

Much has been said about the ability of plans to function as control instruments. The process of strategy formation is by its very nature subject to multiple kinds of uncertainty, ambiguity and complexity (Szulanski and Doz, 1995). Proponents of planning stress the value of planning, it helps managers anticipate change and control their environment. Business plans help managers deal with investors and attract funds (O' Gorman and Cunningham, 1997). When the plan is being written, negotiated and accepted, important decisions are made and resources are divided. Robinson (1982) found that outsiders, defined as accountants, consultants, bankers, lawyers and the board of directors, helped owner-managers develop more effective plans. Critics of the planning school of thought propose that formal plans are often devised simply as a façade to impress outsiders (Mintzberg, 1994). In this way the process of planning is a form of social control. In some cases, managers devise plans because they have no choice and because they have to communicate, explain and justify their actions to others.

Degree of formality, process and outcomes

In the planning school of thought (Ansoff, 1965, Chandler, 1962) the term 'strategy' is usually defined as a formal plan. It is implicitly assumed that one optimal plan can be developed if top management performs a detailed analysis of the environment (Lambkin, 1997). Decision-making lies at the heart of strategic planning and has long been considered an important function of management. The classic model decision-making, as exemplified by Chaffee (1985), is based on logic, rational thought and data, and the role of intuition in decision-making is largely ignored. It is assumed that managers have the time and ability to gather and process large amounts of information.

Various tools and techniques were developed in the 1970s and 1980s to aid strategic planners such as BCG (Boston Consulting Group, 1970), SWOT (strengths, weaknesses, opportunities and threats), PLC (product life cycle theory), amongst others (see Lancaster and Massington, 1988; Dan and Dann, 2007; Aaker, 2014 for a review). Business portfolio models date from the mid-1960s and they generally apply to large, diversified firms. The BCG model places businesses in one of four quadrants based on market share and market growth rates. An investment strategy works when the brand is strong and strategic (these brands or businesses reside in the high share, high growth quadrant). A milking or harvest strategy (reducing investment and operation expenses) works when the involved business is not crucial and sales are declining. An exit strategy can be painful but it releases resources to be used elsewhere.

SWOT is a simple and well established framework. Writers in the planning school of thought propose that it is the goal of the strategist to match the organisation's resources, which constitute strengths and weaknesses (SW), with the opportunities and threats (OT) posed by the environment (Hill and Jones, 2000). For instance, The Australian Red Cross is a not-for-profit organisation that helps people in need, no matter who they are and no matter where they live (Red Cross, 2015). Although it has a strong brand, a key challenge lies in attracting and retaining younger volunteers. The Gen Y (young people born between 1980 and 1994) target market presents a particular challenge to today's charity marketers. Gen Y is the 'what's in it for me?' generation and most have not considered volunteering. Furthermore, they have not considered the charity sector as a career option. In order to attract "Young Humanitarians", the organisation has to develop innovative ways of reaching out to young people. Communication must be relevant, i.e. falling within their area of interest. The opportunity to gain valuable work experience and enhance their resumes can help younger audience see Red Cross's personal worth and relevance (Byrne, 2015). Gen Y has grown up with diverse forms of marketing communications and in a brand-saturated environment, so they are resistant to traditional marketing communications efforts. They are influenced by the presence of the internet and value the opportunity to interact and connect with brands (Lazarevic, 2012). Therefore, social media campaigns are increasingly being used by charities.

Figure 1.2: The Red Cross has a strong brand name and is known for blood donations and its humanitarian work in Australia and further afield
Source: Corbis Images http://www.corbisimages.com

According to the PLC theory, products and services go through four stages during their 'lifetimes' and the four stages are: introduction; growth, maturity and decline. Sales and profits change over the life cycle of the product (Jain et al., 2012). The lesson for management is that strategic goals and marketing strategies must change as the product, market, and competitors change, over the product life cycle. The PLC can be used to analyze a product category (liquor), a product form (white liquor), a product (vodka), or a brand (Smirnoff). In the introductory phase, the focus should be on stimulating generic demand, inducing trial, using marketing tactics to generate awareness and securing distribution. Product category awareness must be built if no similar products or services exist. In the growth stage, competitors are attracted to the growing market, so the focus should be on building brand preference, differentiating the product or service from others (i.e., adding new features, launching new versions, and low-price flanker products), entering new segments, increasing distribution coverage and gaining market share. In the mature stage, the focus should be on defending market share while maximizing profit. Marketers generally search for new users and new market segments and promote new uses for the product. Repositioning of the brand may take place to appeal to a particular segment. The decline phase is characterized by a reduction in marketing expenditure.

In the emergent/process school of thought, writers argue that strategies are not always the product of a formal planning process. Porter's (1980, 1996) definition of strategy does not require planning, only an identifiable product-market scope and a basis for competitive advantage. Critics of the planning perspective (Hamel, 1996) argued that strategic planning became a ritual in most companies, that planners failed to challenge industry conventions and that the strategy formulation process was largely extrapolative in nature. Researchers have proposed that the strategy formation process was not simply an exercise in rationality but reflected experimentation, exploration, intuition, instinct and learning. Many firms became disenchanted with planning because of its inflexible nature and planners committed themselves too much to specific future predictions. Scenario planning (see Lancester and Massington, 1998) involves generating a series of possible scenarios, considering probabilities and implications for the organization. Intuition (Hayashi, 2001) involves making decisions without relying on any logical analysis. Instead executives call upon their intuition, gut instinct, hunches or inner voice. Because intuition is unconscious and tacit in nature, and based on decision-makers' feelings and emotions, it is difficult for them to justify their decisions (Harvey and Novicevic, 2002). Mintzberg and Waters (1985) have highlighted that a great deal of learning takes place as leaders and managers deal with various problems and unforeseen events; therefore strategies may bear little resemblance to intended plans. Some writers have argued forcefully that strategic planning is not appropriate for highly innovative firms where conditions change so fast that long range planning is of questionable value (Mintzberg, 1994).

Richard Branson, the British entrepreneur, is not afraid to engage in risky endeavours. He has launched successful ventures (Virgin Records, Virgin Atlantic) but also failures (Virgin Cola, Virgin Brides and Virgin Racing). With the establishment of Virgin Galactic, Branson plans to offer commercial passenger service to space. More than 700 people have paid up to $250,000 for a trip to space. On the website (http://www.virgingalactic.com/), it is stated that:

> "Our purpose is to become the spaceline for Earth; democratizing access to space for the benefit of life on Earth".

To succeed, it has to contend with major technical issues – including the pull of gravity, heavy vibrations, supersonic speeds and shock waves. It has to transport ordinary passengers safely, reliably and, hopefully, profitably. The challenge will be to keep the passengers alive. To date, the venture has experienced an inflight break-up, the death of a test pilot in 2014, along with the death of three employees and serious injury to three others in 2007. Despite these tragedies, only around 20 passengers cancelled their tickets (Langewiesche, 2015). The CEO stated that the lessons of October 31 will be learned and their team "are pouring themselves into that project with heightened resolve. Our will is indefatigable, and our team is determined" (Virgin Galactic, 2014).

Figure 1.3: Commercial passenger service to space could become a reality in the future
Source: NASA and the National Space Science Data Center (NSSDC) http://nssdc.gsfc.nasa.gov/

The planning model of strategy is the dominant model of strategy in the small business literature. However, studies suggest that founders plan in a way that is quite different to the standard textbook model of strategic planning. Research has described planning as informal in the sense that strategies are not written down and reside mainly in the mind of the CEO (Miller and Toulouse; scanty and perfunctory (Robinson and Pearce, 1983), and short-term in orientation (Gilmore, 1971). In the field of entrepreneurship, studies (Kets de Vries,1990; Bhide, 1994; Broughters et al.,1998, Allinson et al., 2000) have found that entrepreneurs are rarely strategists who focus on the long-term and act according to rational principles, instead they act on instinct, intuition and impulse. Some writers have argued forcefully that strategic planning is analytical and intellectual in nature and tends to drive out creativity, intuition and strategic thinking when all of these aspects are clearly needed in any strategy-making process (Mintzberg, 1994, Liedtka, 1998). Proponents of the emergent model of strategy argue that planning doesn't yield radically different strategies. Hamel (1996, p. 71) stated that "strategizing is not a rote procedure – it is a quest". According to Campbell and Alexander (1997), many planning sessions do not result in new actions and strategic plans are often ignored.

In the process school of thought, writers (Pettigrew, 1992; Mintzberg and Waters, 1985) focus on the processes by which actions are decided and implemented. Writers in the process (or emergent) school of thought have highlighted the emergent nature of strategic actions due to cognitive limitations, learning (Quinn, 1980), cultural biases (Peters and Waterman, 1982) and organizational politics (Pfefffer, 1981). These writers have outlined the difficulties involved in planning a strategy and then trying to implement it as planned. Researchers (Hayashi, 200; Mintzberg and Waters, 1985) have proposed that the strategy formation process was not simply an exercise in rationality but reflected experimentation, exploration, intuition, instinct and learning. Hamel (1996) highlighted that strategic plans were often inflexible and led planners to over-commit themselves to specific future predictions. Today, researchers are attempting to transcend this dichotomy between the planning and process views of strategy. While the first approach over-states the value of deliberate thinking and rational planning, the second approach underemphasizes the value of rational planning within most companies (Ginsberg, 1994). A call has been made for balance and non-dualist thinking (Mair, 1999). The dichotomy between the planning and process views of strategy has been, and still remains, a source of controversy in the literature, with Mintzberg (1991) proposing that both learning and planning are necessary for the long-term survival of the firm.

1.4 KEY INFLUENCES ON STRATEGY

It has been argued that numerous factors affect the strategy formulation or strategy formation process. Figure 1.4 summarises these factors under three headings: the internal environment, the external environment and leaders; leaders are depicted as a third force spanning both contexts. The bottom part of the diagram draws from the work of Mintzberg (1985), who argues that strategies lie on a continuum between deliberate (planned) strategies and emergent strategies. Scholars in the planning school of thought have typically assigned primacy to external environmental forces, and scholars in the process school of thought have emphasized the internal environment.

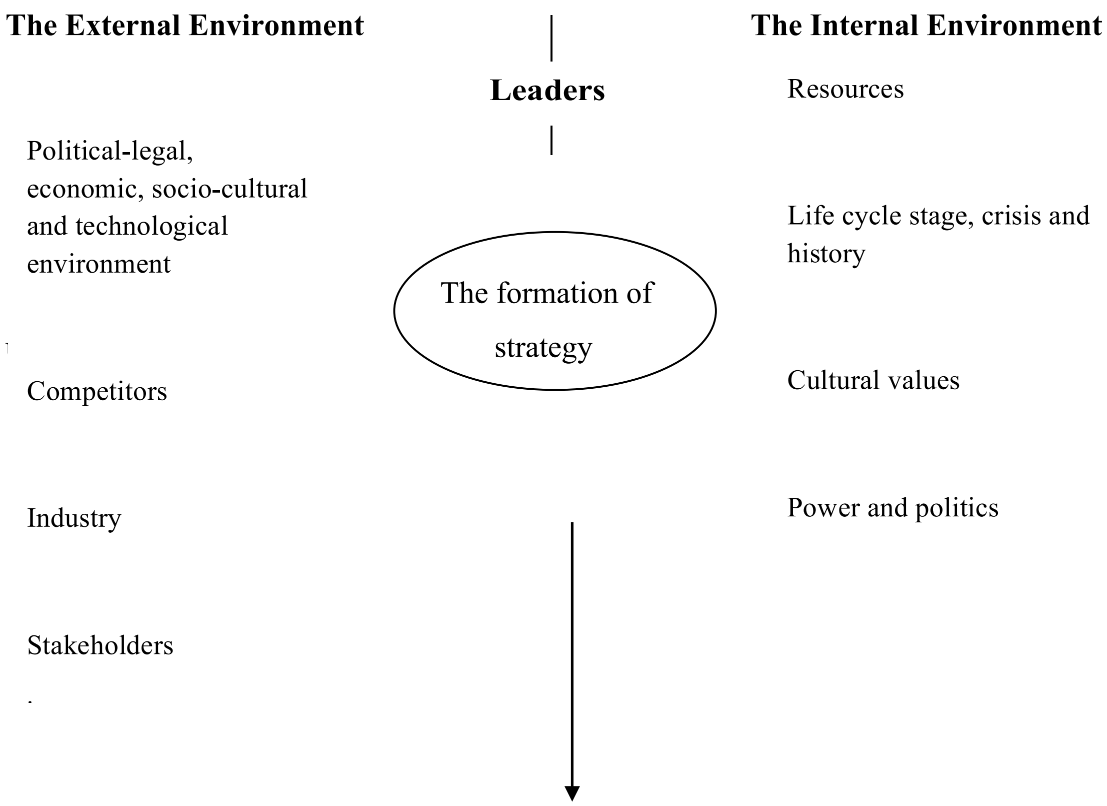

Figure 1.4: The strategy formation process: determinants of strategy
Deliberate Strategy____________________________**Emergent Strategy**
Source: Author-derived

The Internal Environment of the Organisation: Key Dimensions

1. People-driven: the impact of leaders, entrepreneurs and employees.

Decision-making lies at the heart of strategy. Not surprisingly, academics have long sought an answer to the question: who are the decision makers? Traditionally, the formulation of strategy was seen as the preserve of top management (Chafee, 1985) and decision-making was a hierarchical, 'top-down' process. Writers in the process school of thought have demonstrated that decision-making could be a 'bottom-up' as well as a 'top-down' process; Mair (1999) in his review of the Honda case, showed how employees had a role to play in the formulation of strategy.

The literature abounds with long lists of personal characteristics associated with the entrepreneur (Caird, 1993). In general the studies support the notion of the entrepreneur as an intuitive and independent person, who is able to mobilize resources needed to capitalize on a business opportunity. Kets de Vries (1990) argues that entrepreneurs are rarely strategists acting according to rational principles; instead they rely on instinct and act impulsively and on whim. Bhide (1994) proposes that small, entrepreneurial firms focus on doing rather than on long-term planning, with action based largely on intuition. A more recent study on strategic decision-making in small firms by Broughters et al., (1998) found that small firm managers tend to ignore information gathered and analysis performed and rely instead on their intuition. They did not use sophisticated analytical tools (such as scenario analysis or Delphi techniques) that are supposed to prevent certain information from being ignored. Broughters (1998) concluded that small firms are vulnerable to the same biases as larger firms.

Stereotypical accounts of the entrepreneur suggest an individual who has a bias for action and a distrust of planning. However, this dichotomy between analysis and action, between "thinkers" and "doers", encourages a naïve way of looking at decision-making in entrepreneurial firms. Watson (1995) has made the valid point that both entrepreneurship and professional management is required in firms of any size. It is widely acknowledged today that there are several types of entrepreneurs, and some may be predisposed to plan while others may not.

Theory suggests that entrepreneurs have a significant influence on company performance and attempts have been made to profile entrepreneurs (who found high-performing companies) in terms of traits, gender, age, education, occupation, cultural background, among other variables. There is some evidence that that the age, educational and occupational background of the entrepreneur may have an impact on his or her predisposition towards planning. Scholars (Hambrick and Mason, 1984) have found that managers who are older tend to be more conservative in their decisions while younger managers tend to select higher risk strategies. Psychologists use the concept of "loss aversion" (Tversky and Kahneman, 1991) to explain why individuals become more reluctant to assume risk the longer they remain in business. In an article on decision-making, Brindle (1999) argues that the occupational background (e.g, marketing versus finance) of decision-makers affects their perspectives and decisions to allocate resources. Carland et al., (1989) argues that planning depends on the skills of the owner-manager and his or her predisposition to planning.

Academic research linking planning with the characteristics of the decision maker is somewhat fragmented. In some cases, the characteristics of senior managers in large successful organisations has been the object of the researcher's attention (see Smith and Flood, 1991 for a review); in other cases, the characteristics of successful entrepreneurs has been the centre of the researcher's attention; in many cases the role of planning in improving firm performance has been studied. However, studies on the intersection of the following two aspects: planning and the characteristics of the owner-manager in small organizations, have been sparse.

2. Resource-driven

There is evidence that the resources of the organization have an impact on both the type of strategy pursued (strategy content) and the manner in which strategy is created (planned or emergent).

Writers in the planning school of thought propose that it is the goal of the strategist to match the organisation's resources, which constitute strengths and weaknesses, with the opportunities and threats posed by the environment (Hill and Jones, 2000). It has been claimed that larger firms are more inclined to plan than smaller firms because they possess greater resources and this enables them to gather data and examine alternative strategies in greater detail (Brouthers et al., 1998). There is some evidence that the lack of resources, such as management time and money, militates against strategic planning in the small firm context (Paterson, 1986).

3. Driven by life-cycle stage, crisis and history

Studies suggest that strategic decision-making (i.e., the degree to which strategies are planned or emergent) is a function of organisational history and life-cycle stage.

Various scholars argue that as organisations become large, there is a greater requirement for planning. Ansoff (1965) claims that as organizations grow, they require broader participation of managers, more explicit strategies and plans that guide, co-ordinate and motivate managers. Strategy becomes a more co-operative, formal and analytical process. Child (1984) argues that a large and complex organization will need to apply bureaucratic principles to a greater extent than small, simple organizations. Firm size is associated with greater available resources (i.e., in terms of planning staffs) and greater specialisation which leads to increased planning (Fredrickson and Mitchell, 1984).

Some writers suggest that crisis is often necessary to make entrepreneurs aware of the importance of planning (Greiner, 1972) and that crisis triggers change in attitudes, strategies and structures. For instance, entrepreneurs may be innovative and visionary in start-up phase but fail to plan for, and control, growth and therefore they encounter a cash-flow crisis. Closely related to the life cycle concept is the concept of organizational history. Leavy and Wilson (1994) showed how leaders in a few large Irish organizations 'inherited' the decisions of their predecessors which limited their capacity to formulate a new strategy for the organization.

4. Driven by cultural values, power and politics, and learning

As mentioned previously, writers in the process school of thought view strategy in organic terms and propose that strategies are shaped by an organisation's culture (Peters and Waterman, 1982), by power and politics (Pfefffer, 1981) and by learning (Quinn, 1980). These writers argue that it is difficult to pre-determine a strategy and then implement it as planned. Indeed, the need for new strategies may not even be recognized due to the development of a particular mindset or culture over time. These recent writers have challenged the planning school of thought, noting its inability to explain large variances within a single industry. In other words, firms that faced the same challenges and opportunities, pursued different strategies, and performed differently from other firms.

Values-based management is another theme in the literature. According to Anderson (1997: 25),

> "The connection between value judgments and economic success is still unclear in the minds of many executives. Management grounded in value choices for the organization that build compatibility between the individual and the organization is fundamental to decision making. Values-based management lays the foundation for the development of mission and subsequent corporate and individual plans and goals by enabling managers to address and resolve unavoidable dilemmas".

The scholar Chakraborty (1997) argues that an organization that does not align the values of its employees with its corporate vision is not likely to survive in the long run. When implemented correctly in organizations, 'Management by Values' can give a company a competitive edge by creating a highly motivated workforce. For instance, Patagonia is an example of a 'values-led' organisation. Yvon Chouinard, the founder of Patagonia, is an environmentalist who has published several books on his business philosophy. The US-based company positions itself as an industry leader when it comes to sustainability efforts in the consumer apparel industry. Its achievements are outlined on its website (http://www.patagonia.com/us/environmentalism). Patagonia gives its employees the opportunity to support environmental work. Patagonia works closely with its suppliers, the mills, to ensure that fabrics are made in energy- and water-efficient facilities and that fair labour practices are adopted. They work with bluesign® technologies, a third party that audits the water, energy and chemical usage of Patagonia's supply-chain partners. They have a partnership with eBay, known as the 'Common Threads' Initiative (http://campaigns.ebay.com/patagonia) which allows customers to buy and sell second-hand Patagonia merchandise. Patagonia is committed to making high-quality clothes that last for years and items can be repaired through their 'worn wear tour' program.

Figure 1.5: Some organisations offer car-pooling, free bikes and even provide a means to recharge electric/alternative-fuel vehicles.
Source: JCU, Townsville.

Learning comes from relationships with customers, suppliers, bankers, regulatory authorities, family and peers (Gibb, 1997). Learning theorists state that learning is constructed in relation to the context of the individual's life, prior knowledge and experience (Perkins, 1994). Likewise, planning can be viewed as learned behaviour. In the literature, crisis has been extensively examined (Hedburg, 1981; Nystrom and Starbuck, 1984; Perry, 1986; Pitt, 1989; Chowdbury et al., 1993; Hendry et al., 1995) and has been found to trigger organizational learning. Crisis tended to trigger significant change throughout the organization in terms of strategy, ownership structure, power, people or systems. The root cause of crisis was found to the entrepreneur (Hendry et al., 1995) whose dominant personality resulted in a reluctance to cede control and to errors of judgment. The writers above have sought for an explanation for competitive advantage by exploring the internal dimensions of the organization.

External Influences on strategy

The external influences on strategy cover the general environment and external stakeholders.

1. General environment

As noted earlier, writers in the planning school of thought view the external environment as the primary influence on strategy. The role of the strategist is to anticipate and respond to change in the political, economic, social and technological environment (Hill and Jones, 2000). The acronym 'PESTLE' is often used in marketing and management textbooks to refer to the political, economic, socio-cultural, technological, legal and ecological components of the business environment. The analysis of the macro-environment is covered in chapter 4.

Sandberg and Hofer (1988) make the case that industry life cycle has an impact on strategy-making. They argue that a broad product-market scope is best the early stages of the industry life cycle and that a narrow scope is preferable in the later stages. If the industry is highly competitive, then managers may not have the luxury of choosing among alternative strategies. Some studies comparing 'high-tech' firms with 'low-tech' firms suggest that greater planning is required in the high-technology sector due to the high-risk nature of the environment (Berry, 1998).

2. Stakeholders (external)

Influence on strategic decision-making also comes from external stakeholders, such as suppliers, customers, unions and government agencies. Firms are dependent on the external environment for various resources, for legitimacy, and for the sale of their products (Pfeffer and Salancik, 1978). As a result, external groups have "power" over the firm (Porter, 1980) and may influence the decisions managers make. It is clear from the literature (Venkataraman et al., 1990) that small firms are often dependent on few customers, and this makes them highly vulnerable to the loss of a major customer.

1.5 CASE STUDY: WINE AUSTRALIA TARGETS CHINA

Most observers of the Chinese consumer market have seen it evolve from a traditional culture toward a more Westernized consumer society (Wang and Lin, 2009). To Australian policy makers, China is one of the world's most attractive markets due to its large, emerging middle class and their increased disposable income. Even though only a small fraction of China's population of 1.3 billion is classified as middle class, the segment is still large and attractive. However, wine exports to China fell 7% in 2013 and 8.5% in the first half of 2014 (Ross, 2015).

The consumers of luxury brands are considered to be the 'nouveau riche', generally young, urban and fashion savvy (Gao, Norton, Zhang and To, 2009). There has been a shift toward hedonic consumption in China. Chinese consumers, especially young consumers, are inclined to seek fun, enjoyment and instant gratification (Wang and Lin, 2009). By purchasing foreign wines, and giving red wine as a gift, they can satisfy their needs for esteem. The concept of face, or *mian-tzu* is of central importance in China. Face stands for prestige or reputation that is achieved in life through success and personal effort (Hsien, 1944). The 'face' concept is relevant to conspicuous consumption (Wong and Ahuvia, 1998). Companies selling expensive cars, watches, jewelry, fashion, high-end electronics, leather goods, fine wine, skincare and so forth, have benefited from the demand for aspirational brands. By buying designer label brands, the individual can impress others and achieve greater social status. Apple is positioned as luxury product in China and status is conferred by owning an Apple product (HSBC, 2011). When Chinese people travel to places like continental Europe and Hong Kong, they tend to be quite interested in shopping and inclined to bring home aspirational brands in order to gain face. The publishing industry also supports growth in demand for luxury brands, with high-end fashion magazines like *Vogue* seeking to educate the Chinese consumer. Recent research counters the assumption that Chinese consumers will pay huge sums of money for foreign gifts and imported labels.

Recent research shows a rejection of Western associations. While the super-rich target French wines, due to the country-of-origin effect (Yang and Paladino, 2015), the growing middle class are interested in value-for-money wine. They are strongly patriotic. They are highly appreciative of their local culture and norms. Supporting the Chinese community is seen as important for social status and image – which are major drivers of behaviour. The conclusion for Australian wine marketers is to distance themselves from Western associations and localise a bit more. Exporters should consider branding their products with Chinese names, rather than established Australian titles such as Penfolds or Jacob's Creek (Paladino and Ye Yang, 2015).

Although young, affluent Chinese consumers appear to reject traditional Confucian values such as frugality, modesty and humility, they are still strongly influenced by other Confucian values of collectiveness (Wong and Ahuvia, 1998). The western value of individualism is tolerated on the condition that it has no influence on collectivist interest and does not conflict with moral standards (Li and Su, 2007). Some brands like Apple promote individualistic values and encourage consumers to express their own values and personality. The *Think Different* advertising campaign celebrated the renegade culture, however this is not a message designed to strike a chord with the Chinese authorities. Rebelliousness has not been emphasized in appealing to Chinese customers; instead Apple's luxury appeal has been much more prominent in attracting followers (HSBC, 2011).

Figure 1.6: Red wine is an acceptable gift in China
Source: http://www.freedigitalphotos.net/

2 PLANNING AND THE SMALL ORGANISATION

2.1 LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Critically evaluate the relevance of strategic planning to small organisations
- Compare and contrast marketing practices in relation to the small and large organisation
- Describe performance metrics

2.2 LEARNING AND THE SMALL ORGANISATION

Entrepreneurial discourse (Kets de Vries, 1977; Mintzberg and Waters, 1985; Timmons, 1999) has emphasized the critical role played by the entrepreneur in the management of the enterprise. The planning model of strategy is the dominant model of strategy in the small business literature (see Berry, 1998). Proponents of planning stress the value of planning, it helps entrepreneurs anticipate change in the environment, deal with investors and attract funds (O'Gorman and Cunningham, 1997). Planning can aid thinking and decision-making (Johnson, 2002).

Managers of small firms face specific constraints that set them apart from large organisations (Birley, 1982; Roper, 1999) and as a result, strategic behaviour is different. Small firms differ from large organizations in terms of their goals, product/market choices, resources and structure (Birley, 1982). The founder's goals are personal and not just purely commercial in nature, for instance, he or she may decide to restrict growth, continue the family name, or sell. Product/market choices are restricted due to lack of resources and organizational structure is simple. Small firms lack market power and are unable to benefit from economies of scale in manufacturing and marketing terms. Small firms are often dependent on a limited number of customers and suppliers. Since small firms have limited options, it is argued that a niche strategy is the only viable strategy for a small organization (Porter, 1991). The literature on niche strategies suggests that planning is necessary given that entrepreneurs have to search for opportunities; niche markets are ignored by larger firms for economic reasons, or arise due to changes in the marketplace and are missed by other firms. Planning in small firms has been reported to be scanty and perfunctory (Robinson and Pearce, 1983), informal in the sense that strategies are not written down and reside mainly in the mind of the CEO (Miller and Toulouse, 1986), and short-term in orientation (Gilmore, 1971). Some writers argue that planning results in better performance (Roper, 1999) but the link between planning and performance is a source of controversy in the literature.

In the small business literature, planning is often portrayed as a cyclical event and is generally linked to two phases of business development: the start-up and growth phase. Today, major investment cannot be made on the basis of a "wing and a prayer". Investors, be they venture capitalists or bank managers, expect business plans at various stages of business development and demand accountability in terms of investment decisions made. So, at some level, planning is influenced by the interplay between the entrepreneur and important stakeholders. Planning assists managers in dealing with investors (O'Gorman and Cunningham, 1997). Proponents of the planning model of strategy argue that planning is contingent upon the firm's stage of development and that this activity will become more formal and sophisticated over time (Robinson and Pearce, 1984). Research (Gupta and Chin, 1993) indicate that planning is linked to the mature stage of the organizational life cycle. Ansoff (1965) claims that as organizations grow, they require broader participation of managers, more explicit strategies and plans and guide, co-ordinate and motivate managers. Strategy becomes a more co-operative, formal and analytical process. Child (1984) argues that a large and complex organization will need to apply bureaucratic principles to a greater extent than small, simple organizations. Firm size is associated with greater available resources (i.e., in terms of planning staffs) and greater specialization, which leads to increased planning (Fredrickson and Mitchell, 1984). It has been noted that crisis is a powerful factor that triggers change in attitudes, strategies and structures (Greiner, 1972). Crisis is a significant event since it can stimulate the entrepreneur to think and plan strategically (Aram and Cowan, 1990).

It must be noted that formal strategic management procedures that apply to the large enterprise may not necessarily be relevant and applicable to the small enterprise (Shrader, Mulford and Blackburn, 1989). Critics of the planning perspective have argued that the lack of resources in small firms, such as time and money, militates against strategic planning (Paterson, 1986). Studies suggest that founders plan in a way that is quite different to the standard textbook model of strategic planning. Research has described planning as informal in the sense that strategies are not written down (Behara and Gunderssen, 1995; Miller and Toulouse, 1986), scanty and perfunctory (Robinson and Pearce, 1984), and short-term in orientation (Gilmore, 1971). Explanations for the emergent nature of strategy in SMEs have focused on the nature of the environment in which entrepreneurs operate as well as the personality of the entrepreneur. It is widely acknowledged today that there are several types of entrepreneurs (Hornaday, 1990; Chell and Haworth, 1992). A distinction is made between the 'lifestyle' business that has been set up to provide the owner-manager with an acceptable income, and the 'entrepreneurial' business set up with the intention of growth (Burns, 1996). The latter is characterized by planning, an entrepreneurial orientation and marketing competency (Smart and Conant, 1994). Kets de Vries and Miller (1984) suggest that the neurotic character type finds it difficult to cede control of the venture. The entrepreneur tends to have a strong desire for autonomy and control (Timmons, 1999) and these characteristics, if unchecked, can hamper growth of the venture. Stage models of growth (see Timmons for a review) describe the issues, problems and crises that confront entrepreneurs as the venture grows. Greiner's (1972) growth model predicts that a firm will face four types of crises: crisis of leadership, crisis of autonomy, crisis of control and crisis of red tape. Hendry et al., (1995) argued that the root cause of crisis was the entrepreneur, whose dominant personality resulted in a reluctance to cede control and led to errors of judgment. Writers propose that crisis can stimulate the entrepreneur to think and plan strategically (Aram and Cowan, 1990).

In the literature on strategy management, writers have argued that effective strategic decision-making depends on the nature of the environment, whether it is stable or unstable (Fredrickson & Mitchell, 1984). In a similar vein, Mintzberg (1985) questions the value of formal planning to entrepreneurs because they operate in intense, uncertain and high-pressure situations. Other scholars (Allinson, Chell and Hayes, 2000; Bhide, 1994; Brouthers, Andriessen and Nicolaes, 1998; Kets de Vries, 1990) have found that entrepreneurs are rarely strategists who focus on the long-term and act according to rational principles, instead they act on instinct, intuition and impulse. Carland, Carland and Aby (1989: 25) highlight that the:

> "The individual responsible for planning in a small firm is the owner-manager. If that individual is not predisposed to planning, this activity will not take place. Personality will play a key role in that predisposition".

While some attempts have been made towards understanding the link between personality and the strategy (Kisfalvi, 2002), further studies are needed. Kisvalvi (2002), by adopting a psychodynamic approach, found that the entrepreneur's priorities and concerns were shaped by his early life experiences. According to Stewart, Watson, Carland and Carland (1999:206):

> "The role of psychological factors in shaping or selecting out strategy content and their influence on the way entrepreneurs actually form their strategies remains unclear".

One study (McCarthy, 2003) revealed two very different types of entrepreneurs, the 'charismatic' and 'pragmatic' types of entrepreneurs (see Table 2). These types of entrepreneurs were distinguished according to decision-making style, goals, attitude to risk, degree of commitment to the venture and business background. The research found that there was a link between personality and the planning styles pursued by the founders. The pragmatic, careful, and rational type of entrepreneur was much more amenable to planning and perhaps more responsive than the charismatic types to state incentives and state training schemes. Although it is widely acknowledged today that there are several types of entrepreneurs (Hornaday, 1990; Chell and Haworth, 1992), few of these studies attempt to link personality to planning styles. Furthermore, the literature rarely accommodates the notion of the entrepreneur as a pragmatic, careful, and rational individual. The stereotypical image of the entrepreneur is the charismatic type, which has its roots in the charismatic model of leadership, first proposed by Weber (1921; 1968) and developed by others (Trice and Beyer, 1993). Weber defined charismatic authority as resting on the heroism or exemplary character of an individual person. The term 'charisma' can refer to a type of large-scale social system (Weber, 1961). Charismatic social orders are based on a belief in a rare, extraordinary leader such as a messiah or hero. In everyday language, the term 'charisma' refers to a personality trait such as charm, allure, appeal and magnetism. Charisma can even characterize organizations, such as direct selling organisations (Biggart, 1990). Research on the entrepreneurial personality (Kets de Vries, 1990; Bhide, 1994) concludes that entrepreneurs are rarely strategists acting according to rational principles; instead they rely on instinct and intuition, and focus on 'doing' rather than on 'planning'. The charismatic entrepreneur seems to engage with stakeholders on an emotional level instead us relying solely on logic, reason and plans (McCarthy, 2003).

Strategy-related variables	The charismatic entrepreneur	The pragmatic entrepreneur
Strategic decision-making style	Visionary, intuitive, creative.	Planned, rational
Goals	Ambitious, idealistic Fast-growth Diversification	Achievable, conservative down-to-earth, Common sense approach. Slow-growth Consolidation
Attitude to risk and degree of commitment to venture	'Bullish'; risk-prone abiding commitment, obsessive, success against the odds.	'Bearish'; risk-averse calculated commitment, pragmatic, success within reach.
Business Background	Non-business (engineering, technician, software programming)	Combination. Business (accountancy, advertising, sales) Non-business (teacher, graphic designer, technical manager).

Table 2.1: Charismatic versus Pragmatic Entrepreneurs
Source: Author-derived

2.3 MARKETING AND THE SMALL ORGANISATION

The field of marketing is far from homogenous, and many disparate perspectives on marketing exist. However, a common theme can be discerned through all these perspectives. The 'marketing concept' – first articulated in the 1950s – means offering the customer what he or she wants (Kotler, 2000; Dibb et al., 1997; Jobber, 2001). It was proposed that the adoption of the marketing concept was a key success factor in small, as well as large, business (Moller and Antilla, 1987). Jobber (2001, p. 3) defines marketing as:

> "The achievement of corporate goals through meeting and exceeding customer needs better than the competition".

Marketing can be viewed as a culture, a strategy and as tactics (Romano and Ratnatunga, 1995):

1. Marketing as culture relates to a basic set of values and beliefs about the central importance of the customer to the organization. Studies in this stream of literature are concerned with environmental scanning, market research and intelligence, that ultimately helps the firm design products and services that reflect customer needs and wants.
2. Marketing as a strategy focuses on market segmentation, targeting and positioning.
3. Marketing as tactics focuses on the elements of the marketing mix, product, price, place and promotion, and the goal of the small enterprise is to use their resources in the most productive fashion.

The bulk of studies on marketing have been conducted on large firms. Major marketing concepts of the time, such as the marketing mix/4 P's framework, the concept of segmentation, marketing research techniques, the product life cycle concept, and so forth, were all seen as tools and techniques that could help managers solve marketing problems and exploit opportunities. The 4 P's model (McCarthy, 1960) has dominated marketing for the past four decades, and was originally developed from the experiences of large, consumer goods companies operating in mass markets. The marketer is viewed as a 'mixer of ingredients', someone who has to develop an optimal marketing mix configuration consisting of product, price, place and promotion decisions (Alajoutsijarvi et al., 2000). Marketing is also seen as the interface between the firm and its markets (Brannick, 2000) and many definitions of marketing (Kohli and Jaworski, 1990) highlight the fact that the gathering and dissemination of intelligence lies at the heart of marketing. The marketing research process allows the firm to recognize market opportunities, target new segments, respond with new products and services that enhance financial performance (Kotler, 2000).

Early attempts at understanding the marketing practices of the small firm were strongly underpinned by rationality. Researchers sought to apply large firm models to small firms (see Romano and Ratnatunga, 1995 for a review of the literature) but small firms suffered by comparison. Research (Stokes et al., 1997) indicated that most small-business owners tended to regard marketing as 'something that larger firms do'. The constraints faced by small organisations are well documented in the literature and encompass limited resources, lack of specialist expertise and limited impact on the marketplace (Carson, 1985); dependency on few customers (Venkataraman et al., 1990); priority given to quality of lifestyle (Birley, 1982). The small firm is unable to exert much control over the external environment (Cromie, 1990). The term 'limited' arises again and again in studies of small firms. Carson (1985) argued that *limited* resources, *lack* of specialist expertise, and *limited* impact on the marketplace, applied to most small firms. Scholars have found that their marketing knowledge is *limited* (Carson, 1990; Cromie, 1990); marketing tactics are *limited in scale and scope* (Carson, 1985*);* environmental scanning (Mohan-Neill, 1995) is *limited* in scope; gathering of data is *not comprehensive* (Smith et al., 1988); marketing research is *simple, unsophisticated*, *informal*, based on *personalized* sources of information and therefore subject to *bias* (McDaniel and Parasuraman, 1985; Smeltzer, Fann and Nikolaisen, 1988; Callahan and Cassar, 1995; Stokes, 2000); decision-making is *reactive rather than proactive* (Sashittal and Wilemon, 1996); planning is *nonexistent or limited, short-term*, *informal, haphazard*; (Boswell, 1972; Leppard and McDonald, 1987; Cameron, Rushton and Carson, 1988**;** Carson and Cromie, 1989); founders of small firms are *doers rather than thinkers* (Kets de Vries, 1990); founders rely on *intuition, instinct and emotion* rather than on logic and data (Kets de Vries,1990; Bhide, 1994); growth may be *restricted* because the owner-manager values personal goals over commercial ones (Birley, 1982); the dependency of the small firm on a *limited* number of customers renders it highly vulnerable (Wynarczyk et al., 1993). Performance measurement is *limited* to sales (Stokes, 2000). Small firms rarely succeed and they suffer high failure rates (Burns, 1996). High failure rates were attributed to deficiencies in marketing, among other areas (Stokes, 1998). It was assumed that marketing in small firms was inferior to that of large firms and that their marketing behaviour should be 'normalized' and should resemble that of large firms.

The term 'subaltern' has been associated with many disciplines ranging from history, political science, anthropology, sociology and cultural studies The term denotes the lower ranks in the military, the poor, the marginalized, the peasant class, the lower class, colonialism, class struggle (Ludden, 2002). In organization theory, the subaltern has been defined as those individuals who are marginalized and oppressed – the 'underdog' and the subaltern normally develops to become a hero, a leader, a winner (Baruch, 2002). According to Sims (2002), the subaltern often experiences times when their stories are rubbished, contested, denied or simply ignored by others. Perhaps the small firm is the 'subaltern' in the business world. Davis et al (1985) claimed that marketing scholars had largely ignored the small enterprise. There were, perhaps, several reasons for this state of affairs. Research efforts using large, well-known firms tended to be more prestigious and attracted the top researchers in the field. There was greater potential for obtaining external funding from larger companies, and small firms rarely provided support for studies. It was assumed that more sophisticated marketing practices resided in larger firms and that little could be learned from studying marketing in small companies. It has been proposed that smallness in certain cultures has typically been associated with a negative connotation in, and of, itself (Schumacher, 1973).

In the late 1980s and 1990s, there were many researchers who were unhappy with the traditional rational approach. Some authors (Stokes, 2000) have forcefully argued that marketing in small business is not a scaled down version of large-firm marketing practices. It was posited that basic marketing principles and practices that apply to the large enterprise may not necessarily be relevant and applicable to the small enterprise. Research (Carson, 1990; Carson & McCartan-Quinn, 1995; Carson and Gilmore, 2000) suggests that small firms practice marketing in an informal and intuitive manner. A great deal of learning takes place when the founder interacts with customers, suppliers, intermediaries; company founders learn from their mistakes and through experience (Gibb, 1997; Gibb, 2000).

Researchers have highlighted the marketing strengths, rather than the weaknesses, of small firms. They possess many advantages that are linked to smallness, including:

- Creativity (Fillis, 2000a; Fillis, 2000b) and innovation (Boswell, 1972).
- Relationship marketing competency (Muzyka and Hills, 1993, Romano and Ratnatunga, 1995; Day et al., 1998; Alajoutsijarvi et al., 2000; Stokes, 2000).
- Having a network of personal contacts (Aldrich and Zimmer, 1986; Johannisson, 1986; Coviello and Munro, 1994).
- Competency of the owner (Carson, 1990), willingness to learn and build upon competencies (Carson and Gilmore, 2000).
- Flexibility, in terms of production; the ability to sanction and execute decisions rapidly.
- Close proximity to the market.
- Capacity to operate on slim margins (Rogers, 1976).
- Niche marketing.

Dalgic and Leeuw (1994) propose that the most obvious advantage of small, as compared to large, companies is the ability to target a niche market; while large companies are goat serving mass markets, the smaller companies are good at serving specialist markets. The term 'mum-preneurs' (an amalgam of the words 'mum' and 'entrepreneur') is now in vogue and it refers to women who combine stay-at-home motherhood with business ventures; they are good at identifying the needs of pregnant women and new parents. The global reach of the internet means that targeting niche markets can be lucrative. For instance, organic baby skincare and reusable organic cotton nappies are products aimed at a niche market. The Australian company, Robinvale Wines, is another example of a business that targets a niche market (learn more about Robinvale by visiting their website http://www.organicwines.com.au/). The company produces organic wine from grapes grown using organic winemaking methods. Organic winemaking and organic viticulture requires the complete cessation of insecticides, herbicides, artificial fertilisers and other chemicals in the vineyard. The aim is to promote healthy soils, better tasting wines and environmental sustainability. The winery has consistently produced good wine and this is demonstrated by the award of prizes from the Mildura show.

Figure 2.1: Robinvale Wines sells its wines online and through the cellar door
Source: Robinvale Organic and Bio-Dynamic Organic Wines Australia

However, small firms that target niche markets often have difficulty in defending the niche from large firms if it becomes mainstream. The term 'poisoned apple marketing' (Cannon, 1991) has its roots in the story of Adam and Eve and conveys the vulnerability of the small firm.

Researchers have deepened our understanding of small firms by framing them in informal, non-traditional metaphors, such as webs, relationships and networks. This suggests a shift in thinking and a move away from the subaltern discourse – i.e., the thinking that small firms are inferior to large firms. For instance, Stokes (2000, p. 1) argues that small firms practice a unique form of marketing rather than 'marketing which is second best due to resource constraints.' Metaphors are used extensively in management and marketing. It is argued that organisations enter into 'relationships' with customers and other stakeholders and the relationship is akin to a 'marriage' (Tynan, 1999). Within the relationship marketing perspective (Berry, 1983; Gronroos, 1990, 1994; Gummesson, 1987) the focus is on relationships and the importance of retaining customers in the long-term. Relationship marketing can benefit the enterprise, leading to a better understanding of customer needs, word-of-mouth advertising and customer loyalty. The network perspective (Hakansson and Snehota, 1995; Carson et al., 2000) views relationships from a network perspective where changes in one relationship may influence other relationships in the network. Relationships may develop with a number of players, including customers, suppliers, distributors, competitors and support agencies. Networking enables the firm to gain customers and pursue foreign market opportunities (Coviello and Munro, 1994), it enables firms to compensate for their limited marketing expertise and infrastructure. Networking allows firms to outsource marketing activities such as market research, promotion, customer education and training (Coviello and Munro, 1994).

It is clear that these perspectives offer considerable potential to small firms. Day et al. (1998) proposes that relationship marketing is well suited to small firms. Research by Kingston University's Small Business Research Centre (Stokes et al., 1997) indicated that most small-business owners devote considerable time and effort to building relationships with customers. The tenets of relationship marketing are particularly applicable to the software service sector given the close relationships that exist between the service provider and client (Alajoutsijarvi et al., 2000).

However, ideal relationships do not exist in the personal or professional fields. Tynan (1999, p. 24) argues that the metaphor "promulgates a highly idealized, romanticized and interpersonally based notion of the type of relationship which can develop and the degree of commitment consumers can offer their partners". Relationships can be characterized by lack of communication, misunderstandings, mistrust, power plays and compromise. Relationships are often perturbed by breakdown .The entrepreneur may become too dependent on network relationships and sacrifice some control over marketing operations (Coviello and Munro, 1994). In addition, networks can be restrictive and network partners can place constraints on the firm in terms of pursuing specific marketing opportunities and establishing relationships with others.

Today, the marketing and management fields are adopting a much more positive perspective on the small firm. Many large organizations have recognized the benefits of being small and having personal knowledge of the customer. Researchers posited that large corporations (Hendry et al., 1995) should learn from, or even duplicate the advantages of, smaller organizations. Writers (Handy, 1994; Burns, 1996) noted the trend towards fragmentation of markets and the de-construction of large firms; for instance, sub-contracting enables firms to reduce their fixed cost base, flatten their organisational structures and respond quickly to the needs of the customer.

Figure 2.2: Relationship marketing is well suited to small firms
Source: http://www.stockvault.net

2.4 MARKETING TACTICS

Very little of the mainstream marketing literature is directed towards understanding the marketing tactics used by small, entrepreneurial firms. Mass-marketing tactics such as advertising are often beyond the reach of the small enterprise and therefore small firms have limited impact on the marketplace through the mass media (Carson, 1985). Research (Stokes, 1997; Dunn, Birley and Norburn, 1986) has found that the marketing tactics of small firms are restricted in scope and activity; founders shy away from expensive marketing campaigns and make limited use of the marketing mix. Patten (1989) found that small business owners misinterpret marketing and see it as advertising only. Research has found (Carson, 1990) that small firms are founded on the strength of a product and entrepreneurs pride themselves on their ability to provide a high quality product, however their marketing activity is simplistic and restricted.

2.5 GUERILLA MARKETING

In recent times, researchers have argued that small business owners should seek creative, low-cost ways to market their products and services (Weinrauch et al., 1991; Ross and Ross, 1990); this need for creativity is critical, given the inherent lack of many other resources (Fillis, 2000a). In the popular business literature, writers have long exhorted business owners to adopt cost-effective marketing strategies, also described as "marketing on a shoestring" or "guerilla marketing" approaches (Levinson, 1983). Guerrilla marketing programs are designed to obtain quick results using limited resources. It was developed by marketing guru Jay Conrad Levinson. It relies on creativity, good relationships with customers and the willingness to try unusual approaches. Historically, these programs were aimed at small businesses; however, guerrilla marketing tactics can be used by a wide range of firms. Guerrilla marketing depends on advertising, public relations, and surprises or stunts to reach consumers. It does not rely on national or international campaigns, and instead features personal communication. Guerrilla marketing often involves interacting with consumers, not just sending out a message. Building relationships with customers should be the outcome (Clow and Baack, 2010). For instance, flash mobs are sometimes used to arouse curiosity. Travelers at a train station in Brisbane may be greeted by several hundred commuters who start dancing instead of getting onto the train. In an alternative campaign for a bank, "Money is Good" and "Money is Bad" statements appeared around New Zealand and two unbranded films were played on television and cinema. Who was behind the campaign was a well-kept secret and the campaign was designed to create maximum interest and start conversations about the subject of money. It was later revealed that BNZ (Bank New Zealand) was behind the campaign. This launched BNZ's new brand positioning "Be Good With Money" (Campaign Brief, 2012).

2.6 THE INTERNET AND SOCIAL MEDIA MARKETING

The Internet has changed the ways individuals communicate and business is conducted. Instead of traveling to a retail store, a consumer can place the order in the office or at home. The order can be made at any time, day or night. Convenience, speed of purchasing products online, and value for money, all drive consumers to e-retailers. Online penetration of retail sales in Australia is high in categories such as books, CDs, DVDs, clothing, sporting goods, electrical and electronic goods, cosmetics and toys, but much lower for groceries (Productivity Commission, 2011). Furthermore, many consumers first conduct online research before making a purchase. The number of women shopping online is now greater than the number of Australian males shopping online (Nielsen, 2012). The internet has also changed how organisations raise funds and deal with business tasks. 'Crowdsourcing' is a very useful tool for organisations, large and small. According to Jeff Howe (2008), crowdsourcing "is a business practice that means literally to outsource an activity to the crowd". It refers to a wide range of activities, from product design, to advertising, to brand name strategies. Examples include an Internet t-shirt company called Threadless, whose t-shirt designs are created and selected by users. ModCloth is an Internet clothing shop that allows its users to give opinions on, and vote for, clothing designs before their sale (Estellés-Arolas and González-Ladrón-de-Guevara, 2012).

The internet represents more than a means to conduct transactions. It is a channel of communication. Web 2.0 has helped create online communities that connect buyers and sellers in new ways. Web 2.0 refers to blogs, social media networks such as Facebook and Twitter, video-sharing and picture-sharing sites such as YouTube and Pinterest. It allows organisations and consumers to speak to each other and listen to a myriad of voices. Today's organisations can use the Internet to actively engage with consumers. The result is a new term in marketing – interactive marketing. Several retailers, such as ASOS (http://www.asos.com.au), provide customer reviews on their Web sites. This feature presents opportunities for customer interaction and feedback. Some e-marketing sites have also added other features: a "tell a friend" function that encourages positive word-of-mouth and picture sharing through Pinterest and Instagram (Clow and Baack, 2012). Miibrand (www.miibrand.com.au) is an excellent example of how online shopping has been changed into an interactive tool. It was founded in 2011 with the aim of connecting customers to the leading fashion brands. Consumers are encouraged to download an App and get access to special offers, collections, products and updates from leading fashion and clothing brands. Advertising on social networks such as Facebook is prevalent in today's world. However, organisations risk a backlash from some consumers. While some users of Facebook will tolerate advertising in return for free access to their friends, others may resent the increased commercialization of Facebook and many dislike seeing their personal data sold for targeted advertising (Ash, 2013).

Email marketing is a useful tool for small business. However, organisations are advised to tread carefully. Most people resent spam, and response rates are extremely low. The *Australian eMarketing Code of Practice* aims to reduce the volume of unsolicited, commercial electronic messages received by consumers. It is illegal to send commercial, electronic messages that are unsolicited. Electronic messages include emails, mobile phone text messages (SMS), multimedia messaging (MMS) and instant messaging (IM). The *Australian eMarketing Code of Practice* aims to promote best practice use of commercial email in compliance with the Spam Act (ACMA, 2015).

2.7 PERFORMANCE MEASUREMENT

Much of the research assumes that superior overall performance is achieved by the adoption of a marketing orientation. Measuring marketing performance is seen as a vital activity and can be quite broad in scope. In a paper on new service development, Voss et al (1992) outline six categories, financial measures (e.g., profitability, cost efficiency), competitiveness measures (e.g., market share, company image), quality measures (e.g., user friendly, reliability), speed (i.e., concept to launch time), effectiveness (e.g., number of new services/products launched each year), and criterion cost (e.g., percentage of turnover spent on developing new products). The small business literature has very little to say about control systems (Hills and Laforge, 1992). One study (Stokes, 2000) found that performance measurement was narrow in scope, and founders tended to measure sales only, probably due to their lack of marketing knowledge. Boag (1987) found that the implementation of marketing control systems often followed crisis that threatened the firm's survival.

2.8 CASE STUDY: ORGANICS – MOVING FROM NICHE TO MAINSTREAM IN AUSTRALIA

Pierce Cody bought an organic store, Macro Wholefoods in 2004, and with the help of his business partner, turned a single store into Australia's first chain of organic supermarkets (Strates, 2007). In 2007, it was named one of the top ten retailers around the world and showed strong growth prospects (IGD, 2007). It was bought out by Woolworths, who wanted to capitalise on the trend in Australia towards 'health eating' and 'ethical consumption', where more and more people are making intelligent choices about the food that they consume. The organic product lines stocked by Woolworths include organic meat, fruit, vegetables, cereal, dried fruit and nuts, dairy, detergents, aromatherapy and natural skin care products. More and more organic supermarkets have emerged in capital cities, regional cities and towns around Australia. It was not that long ago when Australians associated organic foods with 'greenies', 'hippies' and 'health freaks' and with 'alternative' towns such as Byron Bay and Nimbin. Today organics is a mainstream market. Although the Australian organics industry amounts to only 3.4% percentage of the conventional food market, it is the fastest growing category in Australia. The Australian Organic Market Report (2014) reveals the nation's organic industry is worth $1.72 billion, up by 35% since 2012 and growing by over 15% each year (Australian Organic, 2014). Many farmers who move to certified organic farming are attracted by the high growth rates. The organic meat and dairy sector are success stories but exports overall remain suppressed due to lack of supply (Monk, Mascitelli, Lobo, Chen and Bez, 2012).

The *Macro Wholefoods* brand is similar to brands like *Fresh and Wild* in the UK and *Wild Oats* and *Wholefoods* in the USA. Consumers are increasingly seeking out organically-produced food, for reasons that range from health concerns, a desire to avoid ingesting chemicals and pesticides, to the conviction that organic food results in improved health and longer life and tastes better than conventional food. Ethical concerns for animal welfare and altruistic interest in protecting the environment also drive purchase. A longitudinal study that tracks consumer attitudes about the environment (New South Wales Government, 2006) found that environmental knowledge and understanding has grown markedly since the first survey in 1994. For food consumers, environmental protection means the food is prepared and packaged in an environmentally friendly way, produced in a way that has not shaken the balance of nature. It also means that food is grown locally to reduce transportation (Lockie et al., 2002), although a lot of organic brands suffer from the issue of 'food miles'. Other challenges are lack of supply and seasonal fluctuations. Many community-minded organic shoppers prefer to shop at smaller, independent retailers or buy direct from famers through farm gate sales or farmer's markets. One of the first steps in developing a strategy is to identify the target market. Education, general and science, has a strong impact on consumption. The target market is well-educated, more likely to be white collar than blue collar workers. There is a clear gender dimension to organic consumption. Women take more responsibility for feeding children and other family members and are often very concerned about what their children eat than what they eat themselves – particularly if they are pregnant. Income has some effect on consumption. While the price premium associated with organic products may make them less affordable for low income earners, they are still interested in consuming organic food (Lockie et al., 2002). There are some factors that limit the consumption of organic foods. Consumers are concerned about practical issues, such as (Lockie et al., 2002):

- Cost (i.e., not expensive, good value for money)
- Convenience and availability (i.e., quick and easy to prepare, can be cooked very simply, can be bought in shops close to where consumers live, easily available in shops and supermarkets, easy to eat).

Organic food is sold at a price premium because of lower yields and higher labour requirements. One of the disadvantages of organic production is that the farmer gets less quantity of product per acre. The mainstream consumer is often unaware of the problems and extra costs involved in organic production techniques. Another study of consumer behaviour (Zanoli and Naspetti, 2002) found that certain attributes associated with organic food deter purchase. These are: 'expensive', 'waste', 'perishable', 'not easy to use', 'inconvenient location', 'not easily available', 'negative impact on family budget', 'lack of time', 'visual aspect and packaging'. The market is demand-led and it has developed largely without any major promotion campaigns. Marketing communications will play a role in tackling negative beliefs and making organics more mainstream.

Figure 2.3: Organic produce is one of the fastest growing categories in the food industry in Australia
Source: http://www.freeimages.co.uk

3 COMPETITORS AND THE INDUSTRY ENVIRONMENT

3.1 LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Explain the concept of competitor analysis
- Describe the Porter's Five Force Model
- Evaluate the contribution of the diamond framework in explaining the competitive advantage of nations.

3.2 IDENTIFYING COMPETITORS

In a competitive marketplace, it is imperative to identify competitors and obtain adequate knowledge of one's rivals, their objectives, strategies, strengths and weaknesses, their distinctive competencies. Since most organizations rarely offer a single product or service, they are likely to face different competitors in different product-markets. The rival will vary depending on the target market served. An organization may face competition from various sources, either within or outside its industry. The competitor could be a small firm or a large multinational corporation. Competition is often triggered when firms in different industries try to serve the same customer needs and demands, but in different ways. This is often called 'indirect competition' or the 'threat of substitution'. For instance, Reef HQ, The National Education Centre for for the Great Barrier Reef Marine Park Authority, faces competition, not just from other aquariums, but also other service providers that offer school excursions to children. A good strategist will adopt a broad view of the competition.

With the advent of the internet, traditional players have been challenged. For instance, taxi drivers have been challenged by a new entrant, Uber. Uber (https://www.uber.com) is an example of an entrepreneurial venture that uses a smart phone app to connect drivers with riders. An individual can request a car by using Uber's iPhone or Android app. Uber then sends the nearest driver to the customer's location to pick them up and Uber automatically charges the credit card for the taxi service. However, local government has accused Uber of side-stepping laws in relation to taxi licences and creating unfair competition for registered taxi-drivers (BBC News, 2014). Uber is part of the 'sharing economy' and it consists of enterprises that use websites or mobile phone apps to link customers with services, taking a fee for their service. Companies like Uber (hire cars and short rides), Airbnb (accommodation/rooms rented in a private house) and Freelancer (labour services) have become synonymous with the shared economy (Mather, 2015). New business models in the digital world are giving rise to new forms of competition for traditional players.

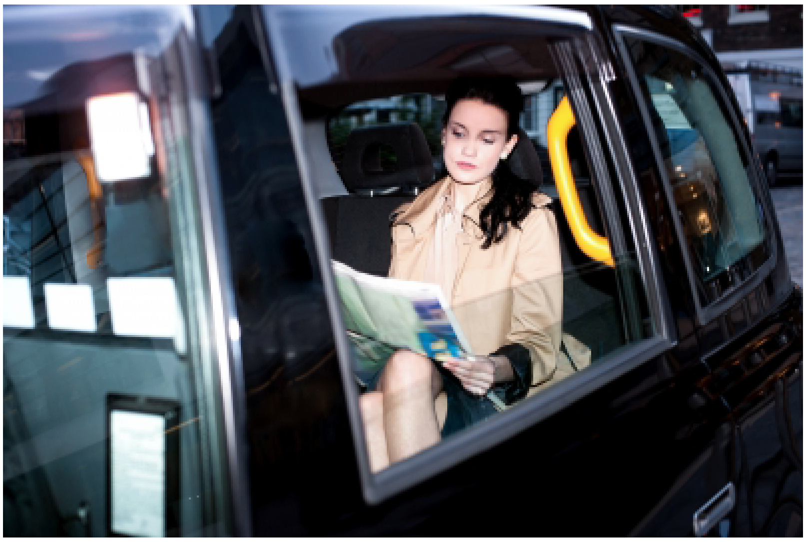

Figure 3.1: Uber's service, hire cars and short rides, are synonymous with the shared economy.
Source: http://www.freedigitalphotos.net

3.3 PORTER'S FIVE FORCE MODEL

Porter's (1980) five forces model is a well-known tool in the field of management and business strategy. The central premise is that industry attractiveness can be measured by the long-term return on investment (ROI) of the average firm. ROI depends largely on five factors that influence profitability. These are as follows:

1. **Power of Suppliers:** Suppliers have the power to drive up prices. This will depend on the number of suppliers, the uniqueness of their inputs, their control over the buyer, switching costs and threat of forward integration. If suppliers are few in number and if they are selling something unique, then they will be able to exert power in the industry.
2. **Power of Buyers:** Buyers have the power to drive prices down. Again, this is driven by various factors such as the number of buyers, the threat of backward integration and switching costs. If an organisation deals with a few, powerful buyers, then they are often able to dictate terms.
3. **Degree of rivalry:** Competitors have the power to drive prices down, depending on the degree of rivalry among firms. Rivalry is a function of several factors: the number of competitors in an industry, industry growth, asset intensity, product differentiation and exit barriers. Exit barriers, such as high fixed costs, intensifies competition.
4. **Threat of Substitution:** Substitutes refer to the ability of the ability of a customer to find an alternative product or service that will meet their needs. If substitution is easy and if it is viable, then this weakens the power of an organisation.

5. **Threat of New Entrants:** Power is also affected by the ability of companies to enter the industry. If entry barriers are low, and if it doesn't cost much in terms of time or money to enter a market, then new entrants can weaken an organisation's competitive position. Entry barriers are many and varied, such as product differentiation, strong brand name, economies of scale, high capital requirements, research and development and access to distribution.

A very attractive industry is characterized by low bargaining power amongst suppliers and buyers, little rivalry and few threats from substitutes and new entrants. The following example of the pharmaceutical industry illustrates how strong forces determine industry profitability. Government regulation, patent protection and investment in research and development act as high entry barriers. Weak suppliers and weak buyers and lack of substitutes lead to a very profitable industry.

Porter's model is well established however the validity of the model has often been called into question. Dann and Dann (2007: 23) point out that "in reality, and with the complexity of market dynamics, these models should be seen as guidelines rather than hard and fast rules. In every case, the model needs to be adapted and adjusted to the specific conditions of the market, the firm, the competitor and the environments for it to be valuable". The model is a useful tool and for the business manager, it emphasises issues that should be considered when planning a strategy.

3.4 PORTER'S DIAMOND FRAMEWORK

There has been considerable interest in the use of the Porter's (1990) diamond framework for the analysis of the competitiveness of various industry sectors since his work was first published. Figure 2 depicts this model. Porter's theory is premised on the notion that the firms derive competitive advantage from characteristics of their national environment, or 'home base'. The competitive advantage of an industry arises from four determinants, which are created within the nation state: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. Porter includes two exogenous forces: the government and chance events. These determinants are transformed into a system by two elements: domestic rivalry, because it promotes upgrading of the entire national diamond; geographic concentration because it elevates and magnifies the interactions within the diamond. It is the systemic nature of the diamond which promotes clustering (McCarthy and Pitts, 1999).

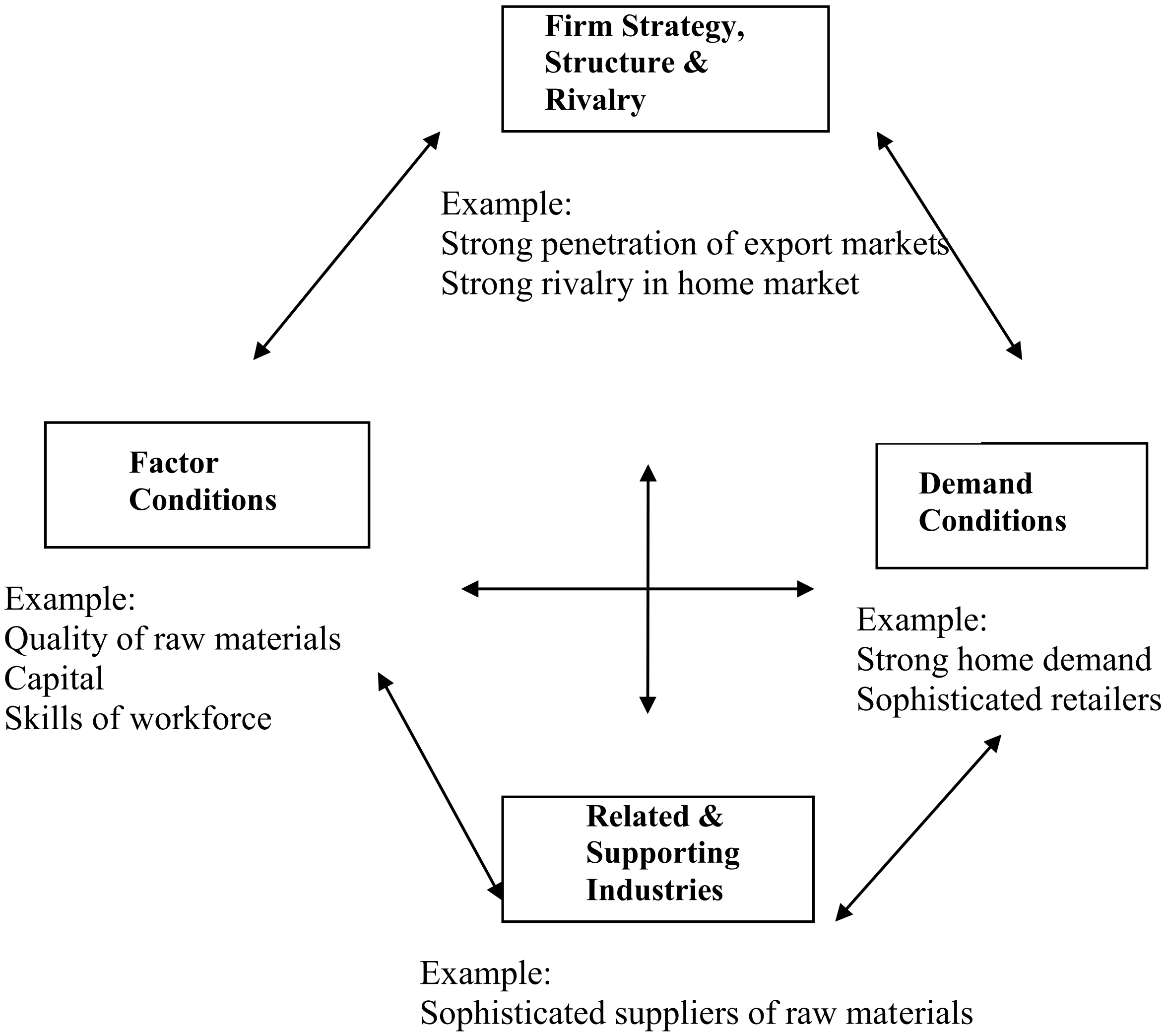

Figure 3.2: The Diamond Model
Source: Adapted from Porter, 1990, p. 127.

Factor Conditions

Factors of production can be described as basic or advanced, and if they are tailored to suit the needs of specific industries, then they are specialised (Porter, 1990). Porter (1990) proposes that a competitive industry has to be endowed with a knowledge base and 'knowledge creating mechanisms' such as research institutes and universities. Factor conditions refer to human resources along with access to capital and infrastructure.

Related and supporting industries

Porter (1990) argues that links with sophisticated suppliers help firms gain access to low-cost inputs and exposes them to new ideas, insights and technologies.

Firm Strategy, Structure and Rivalry

Firm strategy, structure and rivalry are key determinants of competiveness. For instance, is the industry dominated by one or two key players or it skewed towards small firms? Porter argues that if rivalry within the industry is high, then domestic competitors are 'pushed' into export markets due to a saturated home market.

Home Market Demand

Home market demand is seen as very important since firms gain an appreciation of sophisticated and demanding customer needs, and should have the ability to respond to consumer needs.

Government

Porter (1990) argues that government policy has an indirect influence on the four determinants of competitiveness. The government has a role to play in influencing the industry environment through its educational policies, the services and funding it provides to the business community, public spending on infrastructure, taxation policy and so on.

Limitations of the Porter Framework

Although the limitations of the Porter framework have been well documented (Davies et al., 1995; Rugman and D'Cruz, 1993; Bellak and Weiss, 1993, O'Donnellan, 1994; O'Donnell, 1996; Dunning, 1992), one of the main advantages of the Porter approach is its holistic character and its recognition of history and dynamics (Beije and Nuys, 1995). While criticisms of Porter's theory deserve to taken seriously, acceptance of critiques does not imply rejection of Porter's emphasis on innovation nor, indeed, his focus on the impact of the wider economic, cultural and institutional context on firms' competitive advantage (O' Connell et al., 1998). Critiques of Porter's theory have drawn attention to its:

- excessive emphasis on firms' national environment, the 'home base' (Beije and Nuys, 1995).
- limited applicability to small open economies (Rugman and D'Cruz, 1993, Bellak and Weiss, 1993, O'Donnellan, 1994; O'Donnell,1996; Nuys, 1995).
- exclusion of foreign-owned enterprises from the sources of competitive advantage (Dunning, 1992).

Although the framework is far from perfect, McCarthy and Pitt (1999) found it to be a useful framework for the analysis of competitiveness of the consumer foods sector in Ireland. Porter's basic premise is that national competitive advantage grows out of conditions in a nation that stimulate firms to innovate and capitalise on market opportunities.

Figure 3.3: The wine growing region in South Australia benefits from clustering.
Source: http://www.freedigitalphotos.net

3.5 CASE STUDY: CANON

Canon dominates the market for photography. How do you retain market leadership of a category when new entrants and aggressive competitors are eating into your market share? As digital technology and unconventional distribution channels grow, organisations in the photography sector have been challenged to rethink the way in which they market their products and engage with their target audiences.

Canon and its creative agency Leo Burnett (Sydney) created an award winning campaign for Canon EOS that came up with a fresh, community-building idea. Information on the company and its campaign can be found by visiting the following site: http://www.canon.com.au/en-au/worldofeos/home and www.canon.com.au. The following case study outlines the key challenges Canon faced arising from the competitive environment.

Challenges – changing customer meeds and strong competitors

In 2010, Canon was the leader of the dSLR (digital Single Lens Reflex camera) category with its EOS brand but this position was slipping dangerously from its grasp (Atkinson, 2011).

Canon's traditional customer base consisted of sophisticated consumers – the enthusiast photographers – who demanded advanced cameras and had comprehensive information needs. However the category was fragmenting. Entry-level photographers, a new, growing category of camera buyers, demanded easy-to-use gear and basic 'get started' advice. Trying to appeal to two very different segments was a marketing challenge. How could Canon appeal to entry-level photographers without disenfranchising their existing customer base?

Entry-level photographers tended to buy rival brands such as Sony, Olympus, Panasonic and Pentax. Furthermore, these companies were launching Compact System Cameras (also known as 'Mirrorless' cameras) – the first significant innovation to compete with the dSLR category for years. While not performing to the same level as dSLR, these cameras were much smaller and 'sexier' than the dSLR, which had a 'workman-like quality' feel. Research showed that specifications and features, size and weight, price and ease of use were all key reasons to buy a Compact System Camera. They were causing a storm in Japan when launched, stealing share from the traditional dSLR players. This growth, if repeated in Australia, would strongly impact Canon who had not yet launched their EOS Compact System Camera range. Entry level was the critical new battleground, but it was also where Canon was vulnerable. Furthermore, by competing hard on price, Nikon had moved from being a distant threat to a potent competitor and Canon's product was now priced at a premium (Atkinson, 2011).

Marketing objectives

- To achieve a 50% market share (value) for the full year, essentially holding category leadership and domination.
- To achieve a 49% market share (volume) for the full year – achieved by targeting the lower-priced entry-level segment (Atkinson, 2011).

Consumer Insights

Through research, Canon realised that Australia was full of 'lapsed' photographers who lacked the inspiration to pick up their cameras. As a solo hobby, photography suffered from its individualistic nature. Research and experience showed that when photographers are exposed to the photographic efforts, work and creativity of others, their motivation emerges. The core insight was that great photography is not about technology, it's about inspiration, and the best inspiration comes from connecting with other photographers and their photos (Burnett, 2011).

Capturing the minds and hearts of the photographic community

The answer to Canon's marketing problems was a carefully designed, community website that would unite amateurs and experts. There are many benefits associated with community sites (Thompson, 2005):

- Free access to a wealth of information that is easy to understand
- Ease of access – information placed online is not hindered by spatial and temporal constraints
- Available 24/7 – the site is accessible at any moment by anyone who has an Internet connection
- Scale – large amounts of content can be included as physical space concerns are greatly diminished
- Searchability – large databases of information can be searched based on key words, names, phrases, etc.
- Intertextuality – hypertext links may be included in a text to connect viewers to further information
- Multi-media – a variety of different media can be incorporated into a written text
- Consumer-generation content and collaboration features – blogs, discussion boards, contacts, shared calendars, wikis, etc., are essential features to the daily functioning of a global like-minded supportive community.

Collaboration among photographers is not a new development created by the internet. However, websites are particularly well suited to the storage and transmission of content. Canon decided to create an online community of photographers with three key pillars in mind:

- Learning – access to tutorials and easy to understand videos
- Challenging – creative projects for photographers at all skill levels. Enthusiasts had strong desire to explore, experiment and push creative boundaries.
- Sharing – the ability to showcase images and talk to the community at large, a people's gallery.

Canon knew it had to capture the minds and hearts of the photographic community. A campaign, called Photo5, helped Canon drive deep engagement with the website. Originally, Photo5 was simply a competition aimed at photographers – a "take the best photo of an object and win a camera" competition. Interest in the challenge was garnered through an eDirect Mail offer sent to the target market. Over time, it became an inspirational, creative challenge that asked photographers to respond to five different inspirational objects and be part of a gallery experience. The short-listed work was posted in an online gallery and online banner advertising was used to encourage people to visit the exhibition and vote for their favourite work. The winning shots were used in banner and print advertising, not just to celebrate the winners, but to inspire the broader community. The print campaign focused on a still image taken by a member of the World of EOS community, accompanied by a story of the shot, told candidly through their voice, showing the individual holding their EOS camera. The campaign is a great example of how consumer generated content captures people's imaginations and allows brands to talk to customers in a meaningful way. Photo5 is a key component in the Canon EOS communication plan.

Outcomes

The World of EOS became a thriving community of almost 50,000 collaborating photographers and 5.6m visitors. On all measures of brand health, including spontaneous awareness, Canon consistently led the category. In 2010, Canon EOS achieved its biggest-ever sales year accounting for more than one in every two dollars spent in the category (56% value share) and outgrowing the market by 44%. This success has continued to 2012, where the World of EOS has nearly 80,000 active members and the Canon EOS System retains overwhelming No.1 market share of the total dSLR camera category, including Compact System Cameras (Atkinson, 2011).

Figure 3.6: Canon targets the photographic community
Source: http://www.freedigitalphotos.net

4 THE PLANNING ENVIRONMENT

4.1 LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Describe and evaluate the impact of political, economic, socio-cultural, technological, legal and ecological influences (PESTLE) on the strategic planning process

Scanning the environment and performing a PESTLE analysis – an acyronm for political-legal, economic, socio-cultural, technological, legal and ecological – can help marketers and be a powerful contributor to the creation of more effective strategies. It must be noted that the environment in which consumption takes place continually changes and evolves. Several trends in the environment affect potential customers and purchasing patterns. These are described in the next section.

4.2 POLITICAL-LEGAL

The political-legal environment "consists of laws, government agencies and pressure groups that influence and limit various organisations and individuals" (Kotler, Keller and Burton, 2009: p. 87). For example, the Tobacco Plain Packaging Act 2011 and the Tobacco Plain Packaging Regulations 2011 are part of the federal government's efforts to reduce smoking rates (Department of Health and Aging, 2012). The legislation prohibits the use of logos, brand imagery and promotional text on tobacco products and packaging, and includes restrictions on colour, size, format and materials of packaging, as well as the appearance of brand and variant names. It is expected that the visceral images shown on the packaging and the use of fear appeals will resonate with smokers. This law was welcomed by the *National Tobacco Campaign in Australia* that is seeking to reduce the prevalence of adult daily smoking (Australian Government, 2013).

Companies have to abide by various laws governing advertising and fair trading. In Australia, companies operate within the confines of the *Trade Practices Act 1974*, which is a federal law, administered by the Australian Consumer and Competition Commission (ACCC). Under the Act, it is unlawful to make false claims about a product or service and operate in a misleading or deceptive way that might mislead or deceive customers. One example given on the website is where "a business predicts the health benefits of a therapeutic device or health product but has no evidence that such benefits can be attained." When credence claims are misused the damage is done in three ways:

- First, consumers are misled into paying more for a premium feature that doesn't exist
- Second, competitors who can legitimately make a credence claim unfairly lose their competitive advantage, and
- Third, innovation suffers when consumers and businesses lose trust in the integrity of claims.

In recent times, there has been growing interest from health conscious consumers in 'natural' or 'unrefined' sweeteners such as honey, stevia, agave nectar and coconut sugar. These products, along with naturally-occurring sugars found in dates, figs, raisins and fruit, are put forward as better alternatives to refined sugar. However these claims are controversial. Any health claims should be supported by competent and reliable scientific evidence. In recent times, negative media attention has been given to sugar (Gupta, 2012). Scientific studies have linked excessive sugar consumption to cardiovascular illness and diabetes in teenagers (Pollack et al. 2011), along with obesity (Bray et al, 2014).

Figure 4.1: Making health claims for honey has to be supported with evidence
Source: www.freedigitalphotos.net

The desire to protect the interests of society from unbridled business behaviour can drive legislation. Special interest groups lobby the government and pressure business leaders to pay more attention to consumers' rights, women's rights, minority rights and so forth. For instance, GetUp! is a special interest, left-leaning group that campaigns for a wide range of issues, such as same sex marriage, stronger environmental protections and rights for asylum seekers (https://www.getup.org.au/).

4.3 ECONOMIC

The economic environment consists of variables that affect the purchasing power of consumers. These include per capita income, income distribution, inflation, level of savings, debt and credit availability (Koter, Keller and Burton, 2009). The ABS concluded that the Australian economy is doing quite well based on key indicators of performance. Between 2002 and 2012, the annual average unemployment rate for Australia decreased from 6.4% to 5.2%. The unemployment rate is a popular measure around the world for monitoring the economic health of nations. Living standards in Australia have progressed over the last decade. During the decade 2001–02 to 2011–12, Australia's real net national disposable income grew from $40,600 per person to $51,800 per person (ABS, 2013a).

Despite the good news, recent events such as the decline in commodity prices and the end of the mining boom, has had an impact on consumer confidence. Studies have found that Australians have become more cautious about their spending and have become smarter and more assertive shoppers (Dudley, 2012). Many Australian companies have changed their marketing communications messages. For instance, Coles focused on value for money with its campaign, "feed your family for under $10" campaign (B&T Magazine, 2013; Coles, 2012).

Figure 4.2: Australians are growing their own veggies and becoming more frugal
Source: http://www.freeimages.co.uk

4.4 DEMOGRAPHICS

Demographics refer to variables such as population size and growth rate, age distribution and ethnic mix, educational levels and household structure (Kotler, Keller and Burton, 2009). Since people make up markets, organisations need to monitor demographic developments.

Table 1 gives a profile of Australia's population. There are more females than males, Australians tend to reside in cities, the media age is 37, one fifth of the population are children, three quarters are of working age, and 14% are aged 65 and over. Australia's population, like that of most developed countries, is ageing. The Australian Bureau of Statistics predicts that Australia's population of 22.7 million people will increase to between 36.8 and 48.3 million people by 2061. The proportion of Australians aged 65 or over will significantly increase (ABS, 2015). Many women attend university, delay marriage and wait to start families. Australia's birth rate reached its lowest point since 2006 according to figures released by the Australian Bureau of Statistics (ABS) in 2014. Australia's total fertility rate fell from 1.93 in 2012 to 1.88 in 2013. However, the trend among older mothers – those aged between 40 and 44 years – was reversed, and their fertility rate has continued to increase (ABS, 2014). The divorce rate in Australia is high, with more than one-third of all first marriages ending in divorce (ABS, 2012).

Variable	Statistic
Total Population	23m
Sex Ratio	More females than males residing in Australia, with 11.5 million males and 11.6 million females.
Age and Sex Distribution in Greater Capital Cities	15.3m (66% of the population) resided in capital cities 7.8m (24%) resided in the rest of Australia
Median Age	37.3 years
Children (under the age of 15)	4.37m million children (19% of the total population)
Working Age Population – 15 to 64 Years	15.4m of working age (67% of population)
People aged 65 years and older	3.34m (14% of the total Australian population).

Table 4.1: Population Trends (2013)
Source: ABS (http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/3235.0)

Australia is characterised by cultural diversity and a long history of immigration. The largest single group of people born overseas continues to be those born in the United Kingdom, making up 5% of Australia's population and 21% of all overseas born living in Australia. However amongst recent arrivals (people that arrived in Australia after 2006), the top position is held by India. People born in the UK made up 12% of recent arrivals, while people born in India made up 13% (ABS, 2013).

Figure 4.3: Ethnic diversity is a characteristic of Australia's population
Source: http://www.stockvault.net

Over the next several decades, population ageing is projected to have significant implications for Australia. The baby boomer cohort, the 5.5 million people born between 1946 and 1965, are the first generation to face the new 'third age' with the unprecedented expectation of healthy life after retirement. Although the last global financial crisis heightened their sense of financial insecurity, baby boomers expect to say healthy and socially engaged after retirement (Productive Aging, 2006). Product categories that are particularly important to this age group include finance, health, travel and entertainment. For instance, state tourism policies are now aimed at the 'grey nomads', retirees travelling around the country (Cox, 2012). The terms sea-change (moving to coastal areas) and tree-change (moving inland) have become very popular in Australia to describe those from cities seeking new lifestyles and opportunities within Regional Australia (Regional Living, 2015).

Figure 4.4: Population ageing will have significant implications for Australia's health services and the pharmaceutical sector
Source: http://www.freeimageslive.com

Many Australian women are delaying having their first child until later in life (ABS, 2012). Child-free couples (known as DINKS – dual income, no kids) are an increasingly common family type in Australia. For marketers, DINKS represent a real opportunity as they are generally highly educated professionals with a good deal of discretionary income. Wealthy couples are free to spend their disposable income on themselves, by buying expensive sound systems, big-screen televisions, personal care products, holidays and second homes.

Figure 4.5: Australian women are delaying having their first child until later in life
Source: http://www.freedigitalphotos.net/

Divorce and remarriage have altered many family units. As mentioned previously, more than one-third of all first marriages ending in divorce (ABS, 2012). Divorce has a big impact on both men and women. Not only are family assets divided, but divorced men and women have a lower household income than those who remain married. Financially, women fare worse than men after divorce (de Vaus, Gray, Qu and Stanton, 2015). For some, life after divorce means more emphasis on entertainment and holidays as they rediscover the joys of being single. For many, life after divorce means living on reduced income.

Changes in household structure has a profound impact on the housing and the construction sector. The ABS (2015) 'Household and Family Projections' reported that over the next decade to 2012, single person households are expected to increase from 2.1m to 2.5m, an increase of 24%. The accepted wisdom is that demand for apartments will rise. Developers and builders need to know their market segment, understand which segments are growing and have some idea of how consumer preferences for housing will evolve.

4.5 TECHNOLOGICAL

The technological environment refers to new and existing technologies that influence products, production processes and marketing systems (Wood, 2011). Technology is perhaps the most dramatic force affecting people's lives today. Medical discoveries such as contraceptives, open-heart surgery and fertility treatments have increased the quality of people's lives and enhanced longevity. Mobile phones, video games, social networks and the internet have made a major difference to how we work, how we learn and how we use our leisure time. New technology can be a force for 'creative destruction' (Schumpeter). Every new technology has the potential to replace something that is already in existence – computers replaced typewriters; mobile phones threaten fixed lines; digital photography replaced chemical photography. Organisations, particularly those operating in the high-tech sector, need to invest in research and development and be aware that product life cycles are short. The following section discusses the following:

- Technology drives mass customisation and co-creation of value
- Technology drives demand for new products and services
- Technology is driving a change in the consumption of media

Technology drives mass customisation and co-creation of value

The internet has resulted in a dramatic change in how organisations market goods and services to customers. Mass customisation, which involves modifying or building a product according to an individual's personal preferences and offering this option to the mass market, is a key trend in marketing today. Today's consumers are informed, networked, active and empowered, and they are increasingly co-creating value with the firm (Prahalad and Ramaswamy, 2004). In practice, this means having an input into product design or into marketing communications campaigns. Many organisations allow consumers to co-create the physical products they buy online and adapt parts of their web sites to suit their specific needs or preferences. Pioneers include Nike and Levi Strauss. Nike allows consumers to design their own shoes using the organisation's website (http://www.nike.com/us/en_us/c/nikeid). Levi Strauss offers 'made to order jeans', jeans made to fit the exact measurements given to them by the consumer, in some retail stores in the US. Consumers can also customise content and subscribe to different content streams by using third party applications. For instance, iGoogle allows users to create a customized homepage for themselves and add gadgets such as Gmail and Google Talk.

Technology drives demand for new products and services

Australians have a love affair with mobile technology that helps them manage their busy lives, as evidenced by the rise of smart phones, apps, tablets, ebook readers and personal video recorders (PVRs). These devices offer the user flexibility and control. Consumers are demanding real functionality from apps that will help them make decisions quickly and with confidence.

Figure 4.6: The Sightings Network App is an avenue for any Reef user to tell others about the amazing creatures they see in the Great Barrier Reef Marine Park.
Source: http://www.gbrmpa.gov.au/

Technology has changed the way children grow up. Children are bombarded with advertisements and other elements of marketing communications, as well as video games, television shows, films and a myriad other images from an early age. Many believe children are 'growing up' too quickly and maturing at a much earlier age than previous generations. Marketers use the term "tweens" to describe children who are between childhood and adolescence, aged between the ages of 9 and 12. They spend their pocket money on DVDs, computer games, clothing, sports equipment and even cosmetics; however tween consumption and responses to advertising, are likely to vary across cultures (Andersen, Tufle, Rasmussen and Chan, 2008). Technology is also presenting children with new ways of expressing themselves. The Great Barrier Reef Marine Park Authority (GBRMPA) developed a competition aimed at aspiring young video makers and the prize was a iPad or a GoPro camera. The aim of the competition was to help create awareness about marine debris across the reef. Marine debris, or litter, is human-created waste that has been deliberately or accidentally released in the ocean, sea or waterway which can be harmful to marine life (GBRMPA, 2015).

Technology is driving a change in the consumption of media

Australians and New Zealanders are consuming news and media in a very different way from 20 years ago. Nielsen reports that use of the Internet in the Australian population is approaching saturation point, with an overall unique audience of 15.7 million online (Gillmer, 2012). Consequently, the online landscape is presenting advertisers with new opportunities and new challenges. Instead of relying on traditional mass media for information and entertainment, consumers are turning to the internet and to social media. They are even creating their own news in the form of blogs and podcasts which constitutes a new element in journalism, "citizen journalism" (Goode, 2009). They are also spreading word of mouth, good and bad, for organisations. Mobile devices such as 3G phones, tablet computers, ultrabooks and eReaders mean that people can access news and entertainment anytime, anywhere. More and more readers are subscribing to newspaper apps. Newspapers have largely failed to reach the younger, technologically-savvy generation. The Press Council of Australia (2008) argued that newspapers are perhaps old-fashioned and out of date for many in Generations X and Y.

Figure 4.7: Today's consumers want to view TV – anytime, anywhere and anyhow
Source: www.freedigitalphotos.net

Online news browsing is replacing, or supplementing, both newspaper reading and television viewing. The challenges facing the so-called traditional media are well documented. Young viewers, under 30, are watching television by downloading it over the internet or viewing it 'on demand' rather than watching it as it is broadcast (Robinson, 2007). The advent of Internet Protocol Television (IPTV), a technology that streams TV and video services via the internet direct to computer, television set or game console, offers opportunities and threats. Legitimate IPTV (TV via internet) services (such as Bigpond TV, Apple TV, FetchTV, Foxtel, GoogleTV, Quickflicks and ABC iView) are expected to become commonplace as the National Broadband Network (NBN) rolls out in Australia. The National Broadband Network (NBN), which started in 2014, is designed to ensure that all Australians will have access to very fast broadband using a mix of technologies (Australian Government, 2015). Despite the challenges, some television executives have confidence in the medium and feel that the internet isn't replacing TV but is enhancing it (Brook and Meade, 2012). It is argued that television's scale, reach and engagement are proving to be an antidote to fragmentation. Far from cannibalising viewing, new technologies are driving incremental viewing – anytime, anywhere and anyhow (Free TV Australia, 2012).

When online, news consumption becomes a multi-media experience, with text, images, audio and video. Electronic media like television and the Internet have an edge over the print media. They are instant media capable of presenting breaking news and quickly updating the content. Blogs and social media have made the digital world more participatory and interactive (Robinson, 2007). Furthermore, online information is often free. For media outlets, there are significant cost savings in moving online. Furthermore, moving online is said to be more environmentally-friendly – fewer trees are cut down to provide paper and less energy is consumed in producing titles. All these trends suggest a move away from traditional, hard copy newspapers.

Media executives and scholars agree that newspapers, magazines and other forms of print media face serious challenges in terms of stable or declining readership, falling circulation figures and sharp declines in advertising revenue. National, metropolitan and regional newspaper circulation is falling by 5.7% year-on-year, according to the Audit Bureau of Circulations (Clark, 2012). Traditionally, classified advertising was a motivator for purchasing a Saturday paper, but today classified advertising has shifted to the Web. As advertising revenues fall, many newspapers have slashed their editorial staffs and closed news bureaus. Newspapers have tried to reinvent themselves, with the shift from 'hard' news to 'soft news' (lifestyle matters and celebrity gossip); broadsheets to tabloids, black-and-white to colour and weekend supplements.

4.6 SOCIO-CULTURAL

The social-cultural environment consists of forces and trends external to an organization that relate to a society's values and belief systems. A number of key cultural trends will be discussed in this section. These are as follows:

- cocooning
- gender complexity and the blurring of gender boundaries
- the cash-rich, time-poor consumer
- affordable luxuries and holistic experiences
- health emphasis

Cocooning

Scholars have spotted the trend towards 'cocooning', where consumption has become more privatized and where individuals retreat to their homes (McGregor, 2000). Sales are driven by consumers's willingness to splurge on their homes, where they were spending more time. Home-based products such as air fresheners, cushions, ornaments or candles help make the home environment as soothing as possible.

Figure 4.8: Beautiful objects aimed at 'cocooners' meet the need to make the home environment as soothing as possible
Source: http://www.freeimages.co.uk/

Gender complexity and the blurring of gender boundaries

A second new trend in the socio-cultural environment can be labeled 'gender complexity'. This means that the traditional roles, lifestyles, and interests of both men and women are becoming blurred. Women increasingly enter occupations that were the domain of men, e.g. pilots, engineers. Men now work in occupations that were once considered only for women, e.g. nursing. It must be noted that household work is still divided along gender lines in Australia, with women doing most of the indoor tasks and men dominating the outdoor activities. However, these roles have become less rigid in recent years. Between 1992 and 2006, the average time men spent on household work rose by an hour and 25 minutes per week (ABS, 2009). Dads, bachelors, retirees and single men are not only doing more housework, they are also doing more grocery shopping. According to a Nielsen 'Shopper trends' survey in 2011, an estimated 42% of today's shoppers are male. These changes in grocery buyer demographics are leading retailers and big brands to rethink their in-store marketing communications tactics. Male shoppers like marketing communications to be entertaining and sensory. Demonstrations of the product, such as consumer electronics or baby equipment, are very important to them, even more so than price (Ross, 2012). Companies such as Procter & Gamble, Nestle and Unilever that would normally advertise groceries to women now consider men in terms of what they buy and how they shop. In the past, a carmaker such as Ford would target ads to men. Such an approach is no longer useful. Women either purchase the vehicle or have a major influence on the one that is chosen.

Cash-rich, time-poor consumer

Maintaining work-life balance is a challenge faced by people around the world. Australians work on average 1,686 hours a year, lower than the OECD average of 1,749 hours. For some people, quality of life, spending time with family and friends, is more important than work and material possessions. However, almost 14 per cent of Australians work very long hours, much higher than the OECD average of 9 per cent. Long working hours have contributed to the phenomenon of 'cash-rich and time-poor' consumers (OECD, 2012). For marketers, this has given rise to opportunites. Busy lifestyles are affecting food consumption patterns, to the detriment of our health, perhaps. Australians have long been encouraged to 'go for 2 & 5', i.e. eat two serves of fruit and five serves of vegetables each day. However, a report by the Australian Bureau of Statistics (ABS) found that many Australians were not meeting this guideline. In fact, the bulk of expenditure went on meat, takeaway and fast food. A total of $13.70 was spent each week on vegetables, $9.60 a week on fresh fruit and $30.50 on takeway and fast food. (ABS, 2012). Time pressures account for the increase in outsourcing and the rise of personal services such as dry-cleaning, pet-washing, landscape gardening, household cleaning, as well as fast-food, drive through bottle shops and convenience stores. Convenience stores are a well-established part of the Australian retail landscape. These stores stay open for long hours and are located in residential areas to meet consumer demand for convenience. Many offer pre-prepared food and freshly made meals in a 'restaurant' setting with tables and chairs. People use smart phones to make sure they stay in touch with others and do not miss any messages during busy days. The demand for convenience continues to increase. Mobile, active, busy lifestyles have had a dramatic impact on consumer behaviour.

Affordable luxuries and holistic experiences

Some people handle the stress caused by a hectic, busy lifestyle through occasional indulgences or pleasure binges such as expensive dinners out, massages, aromatherapy and smaller luxury purchases. As a result of their newfound frugality, Australians treat themselves in simple ways. The top 5 ways Australians treat themselves are having a meal out (52%), indulging in a favourite food (47%), having a drink at home (37%), going to the cinema (32%) and buying new clothes (31%) (Grey and Sweeney Research, 2012). Pleasure pursuits also include 'getaway' weekends and short escapes to coastal areas, the country or breaks in interstate capitals. These self-rewarding activities make the consumer feel that all the work and effort is 'worth it'. The implications for brands are to remind people of the simple pleasures in life. In marketing communications, brands such as Baskin-Robbins or Magnums show how eating ice-cream can make people happy. Luxury is no longer defined by price, instead it can be found in everyday, simple and accessible things in life.

Figure 4.9: Affordable luxuries, such as a cup of a cappuchino, are in vogue
Source: http://www.freeimageslive.com

In today's experience-based economy,consumers want much more than physical products (Pine and Gilmore, 1999). Organizations have to create holistic experiences based on how consumers sense, feel, think, act and relate to the brand. For instance, the Margaret River Chocolate Company (http://www.chocolatefactory.com.au) is essentially a premium chocolate producer, but the organisation is also a retail store, part museum, part cafe and part manufacturing facility. Global brands like Lego, Apple and Nike, have all developed concept stores which are designed to showcase the brand and create meaningful experiences for individual consumers (Schmitt, 1999). Many people respond to stress through seeking experiences and exciting adventures. From theme parks to virtual reality, consumers enjoy the thrill of experiencing things that seem almost unreal. Sales of 'Social Game' apps like FarmVille have soared. These game apps can be played on social networks such as Facebook or mobile phones like the iPhone. The game is an odd success for the digital world: users get a virtual plot of land to farm as they see fit. As they grow crops and earn currency, they can use the money to buy seeds, animals and tools. Players can play the game with family and friends (MacMillan, Burrows and Ante, 2009). These games enable consumers to relieve stress and "get away from it all".

Figure 4.10: In the experience-based economy, adventure and outdoor travel fulfil a need for meaningful experiences
Source: www.freeimages.co.uk

Health emphasis

Food consumption patterns have changed quite dramatically in Australia. Australians are reducing their consumption of bread, pasta and other carbohydrates. Paleo, gluten-free and raw food diets are gaining popularity. A study conducted for the *Australian Gains & Legumes Nutrition Council* found that in the past 3 years, consumption of carbohydrates has dropped by almost 30% (Grains and Legumes Nutrition Council, 2015). There is increasing interest in super-foods and functional foods that deliver a specific health benefit. For example, flora active is marketed as helping consumers reduce high cholsterol (Unilever Australia, 2012). Although consumers desire healthier foods, they also want convenience (Australian Food News, 2010). Consumer demands have been for foods that are healthier, fresher, more convenient and less processed (Australian Trade Commission, 2012).

Figure 4.11 Concern for health has led consumers to forego the fried breakfast
Source: http://www.freeimages.co.uk

Consumer interest in healthier living has resulted in some consumers cutting their tobacco consumption. Between 1986 and 2006, average household expenditure on cigarettes and tobacco decreased by almost 45%, but alcohol expenditure increased by 15% (ABS, 2007). The increase in alcohol consumption may be explained by rising disposable incomes and marketing communications. Energy drinks have been the subject of scrutiny by researchers on the basis that they encourage irresponsible drinking and binge drinking. A recent study recommended restrictions on the promotions and marketing of alcohol in combination with energy drinks (AEDs) such as bans on the provision of free drinks, restrictions on 'happy hours' and discounted drinks to minimise the risk of rapid, excessive or irresponsible consumption of liquor (Pennay and Lubman, 2012).

The *Quit* campaign in Australia aims to reduce the prevalence of adult daily smoking from 15.9% to 10% or less by 2018 (Australian Government, 2014). Advertising strategies have varied a great deal from those that use fear appeals and emotive, confrontational imagery (such as a smoker suffering from emphysema on a hospital bed) to those that use rational appeals (quitting is hard, not quitting is harder). In some campaigns, the focus is on supporting those who are trying to quit smoking. The '*Break the Chain*' is a 'quit smoking' campaign, first launched in 2011, which aims to halve the smoking rate for Indigenous Australians. It highlights that children of smokers are more likely to smoke than children in non-smoking households. It asks people to stop smoking, if not for themselves, but for their families. The campaign is designed to be personally relevant to smokers, to support them and help them avoid relapse (Australian Government, 2011).

Figure 4.12 Break the chain
Source: Australian Government

4.7 ECOLOGICAL

The ecological (or natural) environment refers to all living and non-living things occurring naturally on Earth, including plants, animals, climate, water, air, metals and soil (Martin and Schouten, 2014). People are increasingly aware of the fragility of nature and the fact that resources such as oil, coal, zinc and silver, are finite. Climate change and the deterioration of the natural environment is a global problem. New environmental regulations have repercussions for some industries. Many businesses have responded by altering their practices to decrease the environmental impact of their business and by offering environmentally-friendly products and services (Kotler, Keller and Burton, 2009). The following section discusses the following:

- green market opportunities
- green consumer segments
- promoting green activities to consumers
- greenwashing

Figure 4.13: Plastic pollution is a major threat to marine life
Source: http://www.freedigitalphotos.net

Green market opportunities

Viable market opportunities await companies and marketers that respond to the environmental concerns of consumers. Enterprising individuals have spotted opportunities in diverse areas such as organic cotton, organic food, recycling, electric vehicles, green buildings and alternative energy. As the price of finite non-renewable resources, such as oil, is set to rise, companies are searching for practical means to harnass solar, wind, water, biomass and other alternative forms of energy.

Figure 4.14: Pollution, such as tyre pollution, puts pressure on the planet
Source: http://www.freedigitalphotos.net

Green consumer segments

On a worldwide scale, consumers are very concerned about the environment and this concern has an impact on their purchasing preferences (Greendex, 2010). According to a recent report by the Climate Institute (2012), Australians are uncertain about the science of climate change, yet almost two-thirds (64 per cent) agreed that climate change is occurring. Australians are prepared to do their bit so long as government and business shoulder responsibility and perform better.

To benefit from green marketing, the organisation identifies market segments that are most attracted to environmentally-friendly products. In Australia, consumers can be divided into four segments based on their propensity to buy green products and their attitudes towards environmental issues. These segments are (1) conventional consumers, (2) price-sensitive green consumers, (3) emerging green consumers and (4) green consumers (de Souza, 2004). The conventional consumers are defined as non-green and they do not have any need for, or interest in, environmentally friendly products. Price is central to price-sensitive green consumers who have some regard for the benefits of green products. The emerging green consumers are committed to environmental protection, however these consumers carefully evaluate product attributes such as quality, warranty and performance in their decision making process. The green consumers are highly concerned about environmental issues and are characterised as buying green products whenever they see an opportunity to do so. They seek out information on product labels and are highly motivated to buy green products even if they were somewhat lower in quality and higher in price in comparison to alternative products.

Promoting green activities to consumers

Almost all organisations say they are pro-environment and provide information on the organisation's environmental activities on websites. The amount of effort given to publicize these activities varies widely. For example, Coca-Cola tries to protect the environment, but most people are unaware of, or cynical about, the organisation's efforts (Martin and Schouten, 2014). Coca-Cola has invested in various recycling strategies and recyclable package designs. The activities are not publicized, because of concerns that doing so might result in claims of green-washing, reduce the product's appeal to some of the organisation's audience or hurt sales.

Partnerships are important to companes that practice green marketing. Kimberly-Clark Australia is another example of a company seeking to reduce its environmental impact. It partnered with the World WildLife Fund (WWF) to show its commitment to sourcing responsible fibres for its consumer tissue products. It was also a participant in the 'Love Your Forests' campaign to raise awareness of the Forest Stewardship Council's (FSC) eco-label and the importance of responsible forest management (WWF, 2012). Major brands such as Nike, Nokia, IKEA and Johnson& Johnson are just some of the organisations that partner with the WWF. In return, they can use the iconic Panda logo to show their concern for species at risk.

For some organisations, environmental activities are fully integrated into the organisation's corporate strategy and marketing approach. This often occurs when the primary customer base consists of the "ultra greens". Examples of these types of companies in Australia include The Body Shop, Organic Formulations, Loving Earth, Planet Organic and Aromababy. For Planet Organic, social responsibility is embedded in every organisational activity, from the manufacturing process to the marketing of products. Planet Organic sells biodegradable tea bags, uses organic ingredients and seeks to build community partnerships. Planet Organic's marketing communications program focuses on concern for, and support of, environmental and social issues. Likewise, Reef HQ, a not-for-profit organisation, places sustainability at the heart of its strategy. Its goal is to "to inspire everyone to care about the Great Barrier Reef and to ensure an outstanding Great Barrier Reef experience is provided through education, inspiration and entertainment and by utilising innovative best practice in the display of living exhibits" (Reef HQ, 2015).

Most leaders believe their organisations should be involved in protecting the environment and creating green products; however, the degree of focus varies. One challenge to sustainable marketing is 'green-washing', which refers to "an organisation's use of vague or misleading environmental claims in order to present a false image of ecological friendliness" (Martin and Schouten, 2014, p. 78) Several organisations that have claimed to be "green" have been exposed by bloggers or fined by the *Australian Consumer and Competition Authority* (ACCC) for making false and misleading claims. Greenwashing can seriously damage an organisation's reputation, particularly in the light of the digital age. Honesty and transparency are critically important in communicating with green market segment.

To summarise, the manager has to be aware of what is happening in the marketing environment. Changes in the political-legal, economic, socio-cultural and technological environment, create opportunities and challenges for managers. There is a need to monitor changes so that the organisation is not surprised by them.

4.8 THE LEGO GROUP

The LEGO® Group is a privately-held, family-owned company based in Denmark, one of the world's leading manufacturers of play materials. It was founded in 1932. Guided by the company spirit: "Only the best is good enough", the company is committed to the development of children and aims to inspire and develop the builders of tomorrow through creative play and learning. LEGO Group was ranked as the fifth most reputable company globally by the Reputation Institute in 2015 (Lego, 2015). The LEGO® Group invented the inter-locking brick in 1955 which was named toy of the century by Fortune magazine. The brightly coloured, plastic bricks can be snapped together and are designed to stimulate a child's imagination. It has been said that, on average, every person on earth owns 75 LEGO® bricks. The LEGO® brand embodies six key values; creativity, imagination, caring, learning, fun and quality.

Strategic challenges

The company has grappled with many challenges. In the 1990s, the LEGO® Group hit a crisis which was caused by changing play patterns and the attraction of alternative toys for children, but also because the company had grown too rapidly, expanding into other areas such as the LEGO® theme parks (Hjarvard, 2004).

In the 1990s, the LEGO® Group discovered that children didn't have the inclination to sit down and play with traditional toys like dolls, trucks and bricks. The old LEGO® sets were beginning to look boring and old-fashioned to children growing up in the digital age. While the LEGO® Group had a great brand heritage, the company had to keep the brand relevant to customers. In other words, LEGO® toys had to be innovative, which, for them, was all about taking the best of its past and making it work for the consumers of today. The objective of the organisation was to reposition the brand and deliver a customer experience that was fun, modern and reflective of its brand's personality (Lauwaert, 2008).

Target markets

The LEGO® brand has 3 different demographics. Firstly, the core demographic is five to nine year old boys with all kids 5–12 years old as a close adjancy. In its global marketing communications campaign, LEGO® toys also reaches out to Dads of boys 6–9. For today's parents, the LEGO® brand brings back happy childhood memories. They are also concerned about their children's learning and development and are attracted by educational value of LEGO® toys. The LEGO® Group understood very quickly that they have to communicate with mothers, particularly with their preschool line, LEGO® DUPLO®, aimed at children one and a half years and up, helping instil brand familiarity at a young age.

The toy industry of today includes not only young children but also teenagers. New target audiences have more disposable incomes and as a result the toy industry is rethinking its marketing in order to attract new consumers. The LEGO® Group has to deal with two trends: KGOY (kids growing older younger) and the ASYL (adults staying younger longer) trend. The Adult Fans of LEGO® or AFOLS, as they are known, are the brand's biggest advocates. They build sophisticated models with LEGO® bricks, post comments online and make YouTube videos. The company even has LEGO® Certified Professionals (such as Ryan McNaught) who use LEGO® toys to build anything and everything one can imagine. This level of consumer engagement with the brand has made the LEGO® Group one of the world's leading toy companies.

Early adopter of the internet – building the customer experience

The LEGO® Group was an early adopter of the Internet. The website is said to be one of the ten most visited children's websites today. There is a new online community section designed especially for children with a high level of safety and parental controls. Members can create their own personal pages, win rewards, meet other LEGO® fans and watch LEGO® movies. In the gallery section, consumers are asked to "share your creative genius and see what other LEGO® fans are building".

With the project, LEGO®MINDSTORMS®, the LEGO® Group began to identify with sophisticated users and designers and encourage them to contribute their design ideas as far back as 1998. The result was that a group of 'lead users' created new product designs which The LEGO® Group was able to sell. It was a bold move: LEGO® users were invited into the company, which is known as 'co-creation' or 'user-driven innovation' (Lauwaert, 2008). In 2012, the LEGO® Group launched LEGO® Friends, a product line that targets girls. However, there was a strong backlash from a women's group, mainly overseas, who were critical of the 'girlification' of the product range, claiming it reinforced a gendered idea of children's play culture (Wilcox, 2012). The LEGO® Group used social media as a way to engage in a conversation with people and allay their concerns.

Strategic alliances

The LEGO® Group found that there was a link between virtual play and the physical play environment of LEGO® bricks. The LEGO® Group has various partnerships in place with the film industry. The alliance with Warner Brothers resulted in the LEGO® *Lord of the Rings*™ series of video games. The LEGO® *Star Wars*™ range of video games is also very popular with children. The association between movies and toys is a long standing one. The ability of film and television to bring fictional characters to life makes spin-off products very attractive to children. The roles and heroes that children can relate to are expanding and now include wizard and space explorer, not just police officer and princess. The LEGO® Group's link with film studios fosters collectability and helps the industry sell merchandise in the form of toys and games. A partnership between LEGO® Australia and Google allowed people to construct with virtual LEGO® bricks on a map of Australia. The project showed the power of modern browsers like Chrome that can offer people a 3D building experience. Through the LEGO® brand's online community, people could then share their creations with other people. The *Build p*roject coincided with the LEGO® *Festival of Play*, which celebrated the 50th Anniversary of the LEGO® brick in Australia. The national campaign consisted of outdoor, print, digital, social media and PR activities. It included life-sized LEGO® brick installations in Sydney and the outback town of Broken Hill. The aim was to communicate the story of the LEGO® brick in Australia and engage both existing and new fans of the brand. It spoke to people about the brand's history and showcased the diversity of its products range. An app called PlayMaker was created to allow iPhone users to use their handset to take a photo of a Lego brick in any shape or size and watch the app bring it to life in a series of animated games (Campaign Brief, 2012).

In conclusion, the LEGO® Group has succeeded in positioning its brick as a "toy of the future, not of the past" (Hjarvard, 2004). For the LEGO® brand, the combination of a quality product, traditional advertising, online experiences, mobile engagement, content development, video games and licensing all play a part in their consumer engagement strategy.

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APPENDIX 1: LIST OF INFORMATION SOURCES ON THE AUSTRALIAN BUSINESS AND ECONOMIC ENVIRONMENT

Australian Bureau of Statistics – http://abs.gov.au/

MAP – Measures of Australia's Progress http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1370.0~2013~Main%20Features~About%20MAP~2

Department of Foreign Affairs – http://www.dfat.gov.au

Department of Industry and Science – http://www.industry.gov.au/Pages/default.aspx

Reserve Bank of Australia – http://www.rba.gov.au

The 'State of the environment' report: http://www.environment.gov.au/topics/science-and-research/state-environment-reporting

http://www.environment.gov.au/topics/science-and-research/state-environment-reporting/soe-2011

The Australian Renewable Energy Agency (ARENA) – http://arena.gov.au/)

Natural Resource Management – http://www.nrm.gov.au

Commonwealth of Scientific and Industrial Research Organisation (CSIRO) http://www.csiro.au/en

Department of Environment – position paper on climate change: http://www.climatechange.gov.au/climate-change/adapting-climate-change

Bureau of Meteorology (BOM) – http://www.bom.gov.au/climate/change/
http://www.regional.gov.au/regional/ona/carbon-economy-for-northern-australia-2012-summary.aspx

Queensland Conservation Council – http://qldconservation.org.au

Australian Marine Conservation Society: http://www.marineconservation.org.au/

Great Barrier Reef Marine Park Authority (GBRMPA) http://www.gbrmpa.gov.au/

Standards Australia – www.standards.com.au (non-government body that develops technical standards for a variety of industries).

Food Standards Australia New Zealand (www.foodstandards.gov.au)

Australian Competition and Consumer Commission (ACCC) – http://www.accc.gov.au/

Queensland Office of Fair Trading – www.fairtrading.qld.gov.au

Data Privacy – further information can be found at:
http://www.adma.com.au/ Association for data driven marketing and advertising. https://www.oic.qld.gov.au/ Office of the Information Commissioner, Queensland.

APPENDIX 2: STRATEGIC MARKETING PLAN TEMPLATE

The strategic marketing plan template is designed to provide a structured approach to the production of a marketing plan. A typical marketing plan will contain the following sections:

Contents

1. Executive Summary
2. Introduction
3. Mission
4. External Marketing Audit
   Macro-environment
   The Market
   Competition
5. Internal Marketing Audit
   Financial Results
   Marketing Mix Effectiveness
   Marketing Structures and Systems
6. SWOT Analysis
7. Marketing Objectives
8. Marketing strategy
   Segmentation
   Targeting
   Positioning
9. Marketing Mix Decisions – 4Ps or 7Ps
   Product
   Price
   Place
   Promotion
   People
   Process
   Physical environment
10. Implementation and control
11. Appendices

Executive Summary

The executive summary describes the report's major findings and recommendations. It is designed to provide a time-poor reader with an overview of the report and it allows the reader to gain an insight into key issues without having to read all of the report.

Introduction

The author of the marketing plan generally outlines the purpose of the report, data sources and any limitations in terms of time and money.

Mission

The business mission is a broadly defined statement that describes the purpose of the organisation and distinguishes it from competing organisations.

External Marketing Audit

The external marketing audit focuses on:

- Macro-environment
- The market
- Competition

The macro-environment consists of broad environmental issues that have an impact on the business. You may wish to analyse it using the PESTLE framework:

- Political
- Economic
- Socio-Cultural
- Technological
- Legal
- Ecological or natural environment

The market analysis consists of:

- An analysis of market size, growth rates and trends;
- Customer/consumer behaviour analysis including who they are, what evaluative criteria they use, how they make decisions, how they rate competing brands/offerings.

Competitor analysis examines:

- Who are the competitors to the company – direct and indirect, actual and potential?
- What are their objectives and strategies, strengths and weaknesses, market shares, size and profitability?
- The presence of entry barriers that restrict entry into the industry from new competitors should be examined.
- The sources of competitor advantage should be examined. A competitive advantage is an edge over competitors on factors that are important to target consumers/organizations (e.g. superior quality or service, being faster at anticipating or responding to customer needs, having trusting, long-term relationships with customers).

Internal Marketing Audit

The internal marketing audit focuses on the marketing activities and marketing performance of the organisation. It generally covers the following:

- Financial Results
- Marketing Mix
- Marketing Structure and Systems

Financial results (by product, customer, and/or geographic region) for sales, market share, profit margins and costs should be examined.

Each element of the marketing mix will be evaluated in the light of the external marketing environmental analysis.

The marketing structures and systems of the company will be evaluated to identify what exactly exists and whether it is effective or lacking in any way. For instance, a marketing department may not exist but growth may demand a new, more complex structure. Different organisational structures exist. The business environment is always changing so a suitable organisational structure has to be chosen to help the organisation adjust and cope with the environment.

SWOT Analysis

A SWOT Analysis is a structured approach to evaluating the position of an organisation by identifying its strengths, weaknesses, opportunities and threats. It provides a simple method of synthesizing the results of the marketing audit by summarizing the company's strengths and weaknesses as they relate to external opportunities and threats. Strengths and weaknesses will derive from the internal marketing audit analysis. Opportunities and threats will derive from the external marketing audit analysis.

Marketing Objectives

As a result of the marketing audit and SWOT analysis, relevant marketing objectives will be set. For instance, marketing objectives generally relate to sales and market share. Strategic objectives can be developed that relate to current products in current markets (market penetration or expansion), new products for current markets (product development), current products in new/related markets (market development) and new products for new markets (diversification). Objectives should be SMARTT – specific, measurable, achievable, realistic, targeted and with a time-frame.

Marketing Strategy

Marketing strategy involves the achievement of marketing objectives through segmentation, targeting and positioning.

Target Markets – a choice of target market(s) has to be made. A target market is a group of consumers/organizations (segment) that share similar needs or characteristics and the organisation seeks to target its product/service offering and marketing communications at this segment.

Marketing Mix Decisions

By defining a target market and understanding the needs of their consumers/organizations, a marketing mix can be created to meet those needs better than the competition. Decisions have to be made regarding product, price, place, promotion, people, physical environment and process.

Product

Product decisions cover brand name, features and benefits, quality, design, packaging, warranties, customer service. Other areas to be considered are product life cycle analysis and diffusion of innovation.

Promotion

Promotion, or marketing communications, covers advertising, direct marketing, interactive marketing, personal selling, sales promotions, sponsorship and public relations.

Price
Pricing decisions involve choices regarding list price, discounts, credit terms and payment periods. Elasticity of demand should be considered.

Place
For organisations selling products, physical distribution ensures that products get to the right place, on time, and in the right condition. Place decisions involve choices regarding distribution channels to be used (direct or indirect), distribution coverage, costs and level of customer service. Direct channels include sales force, call centres, direct mail, branches, retail outlets, transactional website. Indirect channels include distributors, agents and retailers.

People

Most services require direct, personal interaction between customers and providers. These interactions strongly influence customer satisfaction and perceptions of service quality. Ultimately, it is the people that can make the encounter memorable or mediocre. Uninformed, unfriendly or ill-mannered people are all examples of unpleasant encounters that lead to dissatisfaction. The 'people' element also includes other customers (i.e., crying children, noisy or rude customers) and conflict between customer groups needs to be avoided.

Process
Process refers to the steps undertaken to deliver the service. Efficient 'backstage' activities are required to enable staff to deliver high-quality services (i.e., reservation and processing systems).

Physical environment
This component of the services marketing mix addresses the 'tangible' component of the service product (also known as the service-scape) such as the building, landscape gardening, cleanliness of facilities, signage, absence of litter, the physical layout of the service facility, ambience, use of colour and lighting, background music; seating comfort, etc. These elements can affect a customer's impressions of, and satisfaction with, the service. The appearance of staff, including clothes and grooming, may also function as important cues.

Implementation and control

Consideration should also be given to implementation issues. These focus on who is responsible for various activities, how the marketing plan should be carried out, where things will happen and when action will take place. A marketing budget should be included, detailing areas of expenditure. The aim of control systems is to evaluate the results of the marketing plan so that corrective action can be taken if performance does not match objectives. Metrics or performance measures should be identified, such as return on investment, sales, profit, brand awareness, cost per lead, customer satisfaction, growth in customers, lead conversion rate, orders, repurchase rate, channel efficiency, Facebook likes, website hits and so forth.

Appendices

Appendices are a useful tool. The appendices are used to present information that is not essential to the report, but supports the analysis and it should be directly related to the purpose of the report. Examples of information that could be included in an appendix include figures/tables/charts/graphs of results, statistics, surveys/questionnaires, transcripts of interviews, pictures, maps or drawings. Lengthy information, such as transcripts, should be placed in the appendices. Each separate appendix should be lettered (Appendix A, Appendix B, Appendix C, etc.). The order in which they are presented is dictated by the order in which they are mentioned in the main body of the report. It is essential to refer to each appendix within the text of the report.