

## Domain 3: Situation Analysis

---

Elina Tang  
Assistant Professor of Marketing  
Department of Managerial Studies  
College of Business Administration  
University of Illinois at Chicago

### Introduction

*Know your enemy and know yourself; in a hundred battles, you will never be defeated.*  
—Sun Tzu

**Situation analysis** is the systematic collection and study of past and present data to identify trends, forces, and conditions with the potential to influence the performance of the business and the choice of appropriate strategies. It includes an examination of both the *internal* factors (to identify strengths and weaknesses) and the *external* factors (to identify opportunities and threats).

Situation analysis is the foundation of the strategic planning process. It is usually the first substantive section in a marketing plan, after an executive summary. It precedes the sections on marketing strategy, financial projections, and implementation controls. Typically, this section reviews the marketing manager's assessment of the current situation by summarizing analysis of current and potential customers, the competitive environment, the company's strengths and weaknesses, trends in the broader macroenvironment that may affect the product, and past performance outcomes for existing products. This section also includes estimates of sales potential, forecasts, and other assumptions underlying the marketing plan. With these analyses, the manager may then call attention to one or more key issues, major opportunities, or threats that should be addressed during the planning period.

The opening quote comes from *The Art of War*, written by the ancient Chinese military general, strategist, and philosopher Sun Tzu during the late spring and autumn period, or early Warring States period, more than two thousand years ago. *The Art of War* is a text on strategy and has influenced many notable figures, including the first emperor of a unified China, Qin Shi Huang. The Department of the Army in the United States, through its Command and General Staff College, refers to this book as an example of works to be maintained in each individual unit. The book is listed on the Marine Corps Professional Reading Program. During the Persian Gulf War in the 1990s, both General Norman Schwarzkopf Jr. and General Colin Powell practiced Sun Tzu's principles of deception, speed, and attacking the enemy's weakness. Although this book has been long acknowledged as a classic text on military strategy, it is also a practical guide for modern business executives. In *Sun Tzu and the Art of Business*, Mark McNeilly (2011) shows how Sun Tzu's strategic principles can be applied to twenty-first-century business. McNeilly synthesizes Sun Tzu's ideas into six strategic principles for the business executive and explains how to gain market share without inciting competitive retaliation, how to attack competitors' weak points, and how to maximize market information for competitive advantage. Examples from Google, Zappos, Amazon.com, Dyson, Aflac, Singapore Airlines, Best Buy, the NFL, Tata Motors, Starbucks, and many others demonstrate how, by following the wisdom of history's most respected strategist, executives can avoid the pitfalls of management fads and achieve lasting competitive advantage. Many of the examples are related to situation analysis.

## AMA CMM STUDY GUIDE - Instructor Edition

Below, we discuss situation analysis under three topic areas: (1) macroenvironmental analysis, (2) market potential, and (3) competitive analysis.

### Topic 1: Macroenvironmental Analysis

#### Learning Objectives

- LO1: Describe how companies identify customer needs and social trends.
- LO2: Analyze the importance of demographic variables in making marketing decisions.
- LO3: Describe how economic forces affect marketing decisions.
- LO4: Describe how the sociocultural environment affects marketing decisions.
- LO5: Describe how the technological environment influences marketing decisions.

*It is wiser to find out than to suppose.*

—Mark Twain

### Identification of Customer Needs and Social Trends

The American Marketing Association defines **marketing** as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. To determine what offering would provide value or added value to customers, clients, partners, and society at large, it is important to identify what needs and wants are.

**Needs** are basic human requirements, such as air, food, water, clothing, and shelter. Needs also include factors such as education, recreation, and entertainment. Needs become **wants** when they are directed to specific objects that might satisfy needs. For example, a person may need food but want a hotdog and a milkshake. Importantly, marketers do not create needs, as some people believe. Needs precede markets. Marketers can only create awareness and stimulate or otherwise influence wants.

The consumer buying process begins when consumers recognize that they have an unmet need or when they realize a discrepancy between their current level of satisfaction and desired level of satisfaction. A company must first understand the basic needs their products fulfill and the benefits they provide. For example, consumers who buy drills do not need drills; they need holes. Understanding basic needs enables a company to segment the market in a meaningful way and tie consumer needs to specific product offerings. The best company fulfills consumers' needs and convinces potential buyers that they **want** this particular product because it will fulfill their needs better than competing companies' products.

**Five types of consumer needs** can be distinguished: *stated needs*, *real needs*, *unstated needs*, *delight needs*, and *secret needs*. It is important for a company to identify and meet all five types of needs rather than merely addressing the stated needs. For example, customers did not know they wanted e-readers before the device was invented. Now, projected sales for e-readers, such as Kindle