A host of concepts and methods are introduced in this and the following three chapters. It would, of course, be unusual to use all of them in any given context and the strategist should resist any compulsion to do so. Rather, those that are most relevant to the situation at hand should be selected. Furthermore, some areas of analysis will be more fruitful than others and will merit more effort.

The Level of Analysis—Defining the Market

An external analysis of what? To conduct an external analysis, the market or submarket boundaries need to be specified. The scope of external analysis can involve an industry broadly defined (sporting goods), narrowly defined (high performance skis), or using a scope definition that falls in between such as:

- Ski clothing and equipment
- Skis and snowboards
- Downhill skis

The level of analysis will depend on the organizational unit and strategic decisions involved. A sporting goods company, such as Wilson, will be making resource decisions across sports and thus needs to be concerned with the whole industry. A ski equipment manufacturer may only be concerned with elements of sporting goods relating to skis, boots, and clothing. The maker of high-performance skis might be interested in only a subsegment of the ski industry. One approach to defining the market is to specify the business scope. The scope can be identified in terms of the product market and in terms of the competitors. Relevant, of course, are the future product market and competitors as well as the present ones.

There is always a trade-off to be made. A narrow scope specification will inhibit a business from identifying trends and opportunities that could lead to some attractive options and directions. Thus, a maker of downhill skis may want to include snowboards and cross-country skis because they represent business options or because they will impact the ski equipment business. On the other hand, depth of analysis might be sacrificed when the scope is excessively broad. A more focused analysis may generate more insight.

The analysis usually needs to be conducted at several levels. The downhill ski and snowboard industry might be the major focus of the analysis. However, an analysis of sporting goods might suggest and shed light on some substitute product pressures and market trends. Also, an analysis may be needed at the segment level (e.g., high-performance skis) because entry, investment, and strategy decisions are often made at that level. Furthermore, the key success factors could differ for different product markets within a market or industry. One approach is a layered analysis, with the primary level receiving the most depth of analysis. Another approach could be multiple analyses, perhaps consecutively conducted. The first analysis might stimulate an opportunity that would justify a second analysis on a submarket.

When Should an External Analysis Be Conducted?

There is often a tendency to relegate the external analysis to an annual exercise. Each year, of course, it may not require the same depth as the initial effort. It may be more productive to focus on a part of the analysis in the years immediately following a major effort.

The annual planning cycle can provide a healthy stimulus to review and change strategies. However, a substantial risk exists in maintaining external analysis as an annual event. The need for strategic review and change is often continuous. Information sensing and analysis therefore also need to be continuous. The framework and concepts of external analysis can still play a key role in providing structure even when the analysis is continuous and addresses only a portion of the whole.

External analysis deliberately commences with customer and competitor analyses because they can help define the relevant industry or industries. An industry can be defined in terms of the needs of a specific group of customers—those buying fresh cookies on the West Coast, for instance. Such an industry definition then forms the basis for the identification of competitors and the balance of external analysis. An industry such as the cookie industry can also be defined in terms of all its competitors. Because customers have such a direct relationship to a firm's operation, they are usually a rich source of relevant operational opportunities, threats, and uncertainties.

THE SCOPE OF CUSTOMER ANALYSIS

In most strategic market-planning contexts, the first logical step is to analyze the customers. Customer analysis can be usefully partitioned into an understanding of how the market segments, an analysis of customer motivations, and an exploration of unmet needs. Figure 2.3 presents a basic set of questions for each area of inquiry.

SEGMENTATION

Segmentation is often the key to developing a sustainable competitive advantage. In a strategic context, *segmentation* means the identification of customer groups that respond to competitive offerings differently from other groups. A segmentation strategy couples the identified segments with a program to deliver an offering to those segments. Thus, the development of a successful segmentation strategy requires the conceptualization, development, and evaluation of a targeted competitive offering.

SEGMENTATION

- Who are the biggest customers? The most profitable? The most attractive potential customers? Do the customers fall into any logical groups based on needs, motivations, or characteristics?
- How could the market be segmented into groups that would require a unique business strategy?

CUSTOMER MOTIVATIONS

- What elements of the product/service do customers value most?
- What are the customers' objectives? What are they really buying?
- How do segments differ in their motivation priorities?
- What changes are occurring in customer motivation? In customer priorities?

UNMET NEEDS

- Why are some customers dissatisfied? Why are some changing brands or suppliers?
- What are the severity and incidence of consumer problems?
- What are unmet needs that customers can identify? Are there some of which consumers are unaware?
- Do these unmet needs represent leverage points for competitors or a new business model?

Figure 2.3 Customer Analysis