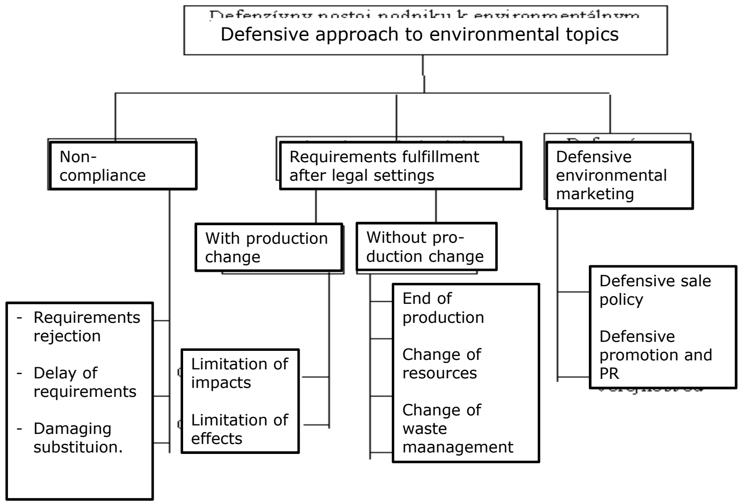
Topic 5: Environment and marketing

Ing. Rastislav Strhan, PhD.

Environmental market and marketing

Defensive approach to environmental requirements



Use of defense strategy toward environmental topics

- When complying with legal requirements, all additional environmental impact costs are externalized, so they do not pose a risk or cost to the manufacturer.
- Internalising environmental burdens to meet legal requirements leads to higher development and production costs and deterioration of the company's liquidity.
- A more active approach to the environment can lead to a conflict with fundamental business objectives, as indicated above.

Use of defense strategy toward environmental topics

- With a large number of businesses and products on the market, the benefits of environmental orientation are relatively small and the possibilities for improving the situation for one enterprise also.
- Before entering the market, an environmentally-oriented manufacturer must implement an extremely complex planning and decision-making process.

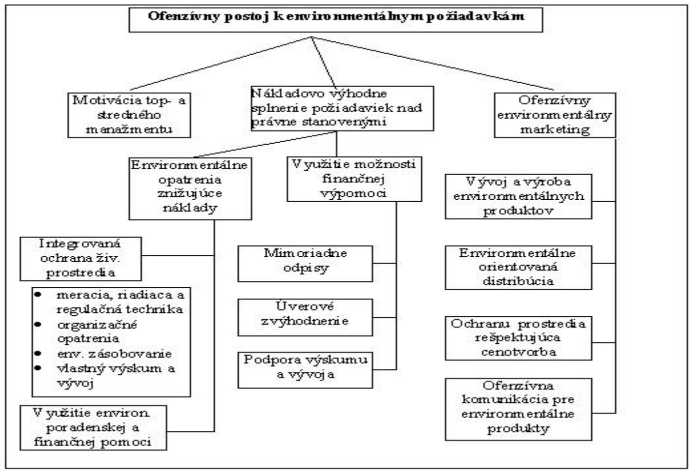
Use of defense strategy toward environmental topics

- The environmental impact and environmental policy priorities are changing quite quickly, so that no manufacturer can be sure of the long-term environmental suitability of its products.
  Consumer attitudes towards environmental products can change rapidly, especially the higher prices of such products can become a heavy burden if the economic situation evolves and the demand elasticity changes.

Risks and limits of defensive strategy

- **Consistent growth of the consumer segment demanding environmental products.**
- **Growing demands for environmental, health and consumer protection, both nationally, transnationally (European Union) and international.**
- **New requirements for products and processes associated with the environment are constantly emerging and emerging, which must be taken into account by the enterprise.**
- **Business managers and managers also have to deal more extensively with ethical commitments to society and the environment.**

Offensive approach toward environmental tasks



Competitive advantages of offensive approach toward environmental topics

- facilitating employee identification with the enterprise and increasing the loyalty and commitment of employees to the business
- easier access to finance, the possibility of more favorable loans, the use of environmentally oriented financial resources, a better position on the capital market,
- state financial support (access to targeted subsidies and grants), good relations with state institutions due to the good name of the company
- an innovative business policy that enhances business competitiveness

Competitive advantages of offensive approach toward environmental topics

- Reducing costs that can cause long-term or short-term respect for environmental requirements
- Improving public image based on existing activities
- overtaking legal regulations reduces the pressure to implement new requirements and the risks associated with it, as mentioned above
- a competitive advantage based on the status of pioneer, which can be beneficial in new business activities.

Offensive approach – incentive for strategy

- An enterprise's processes and products are subject to numerous and rapidly changing environmental requirements, so the economic consequences of requirements are reduced by an active attitude.
- ----- The company offers environmental performance, ie products, services or comprehensive solutions for the environment.
- ---- The company manufactures environmentally sound products, which it assumes to obtain a competitive advantage by differentiating on the basis of its attitude towards the environment.

Understanding situation

- Strategy
- Competition
- Common interest

What is strategy?

- Definitions
  - "A course of action to achieve targets"
  - "A plan or method employed in order to achieve a goal or objective
  - In practice: often a checklist of things to pay attention to and watch out for
- External and internal
- Planning v strategic interaction

Competition Quotes…

- "We never lose, but sometimes the clock runs out on us." (Vince Lombardi)
- "The winner is the only individual who is truly alive…every time you win, you're reborn; when you lose, you die a little." (George Allen)
- "The winner is the only individual who is truly alive." (George Allen)

Competition Defined

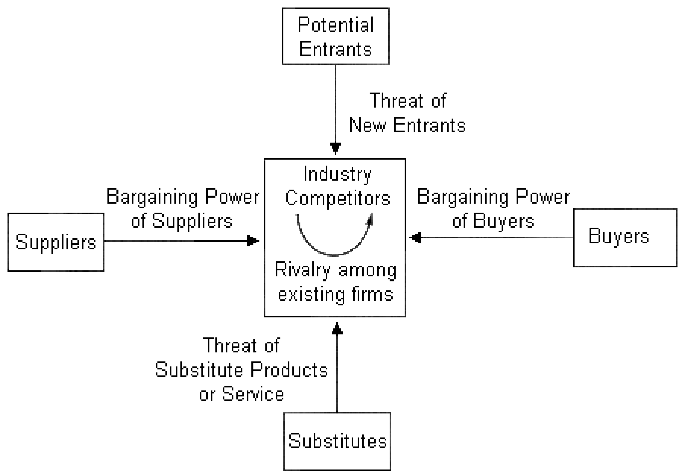
- "A struggle for supremacy between two or more opposing sides." (Loy, 1969)
- "A contention of interests…a rivalry between opposing forces (man, animal or nature) in which the interests of both are not mutually obtainable." (Slusher, 1974)
- "A process through which success is measured by directly comparing the achievements of those who are performing the same physical activity under standardized conditions or rules." (Coakley, 1990)
- "A situation in which two or more people vie for a prize, honor, or advantage." (General Definition)

Two Types of Competition

- Direct Competition
  - For each successful competitor, at least one must fail.
  - This is what we call a "zero sum game" where the sum of the winners and the losers is zero.
  - If two teams play, one team wins (+1) and one team loses (-1)
- Indirect Competition
  - Utilizing past performance as a criterion to evaluate current performance.
  - Allows us to have a positive sum game because WINNING is not the sole purpose of participation.
  - Ex. Golf outing where no comparison of scores, basketball team who strives to get better, runner who tries to improve performance.

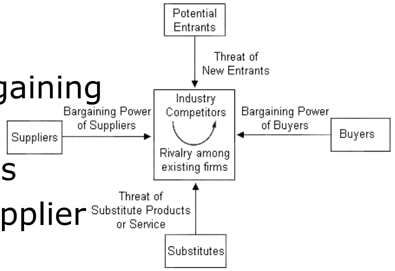
Michael Porter's Five Forces

Porter, Michael E., *Competitive Strategy*, Free Press, 1998



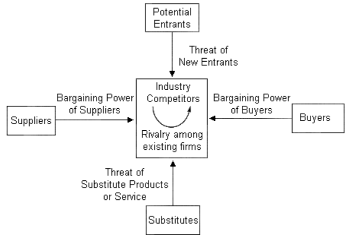
Supplier power

- Importance of costs
  - Impact of inputs on your product cost or design
- Competitive environment
  - Supplier concentration, bargaining power
  - Presence of substitute inputs
  - Importance of volume to supplier
  - Switching costs of suppliers
  - Threat of forward integration



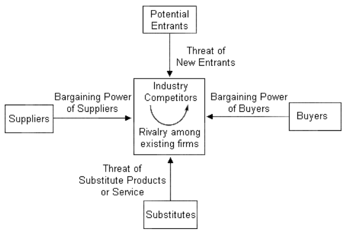
Barriers to entry

- Costs
  - Absolute cost advantages
  - Economies of scale
  - Capital requirements
- Scarcity
  - Access to distribution
  - Proprietary learning curve
  - Access to inputs (IP)
  - Proprietary products
  - Brand identity
- Other
  - Customer switching costs
  - Expected retaliation (I.e., capacity threat)
  - Government policy



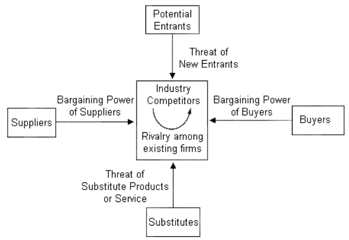
Buyer power

- Competitive environment
  - Buyer concentration
  - Bargaining power
  - Substitutes available
  - Product differentiation
  - Price sensitivity
  - Buyers' switching costs
  - Brand identity
  - Buyer volume
  - Threat of backward integration



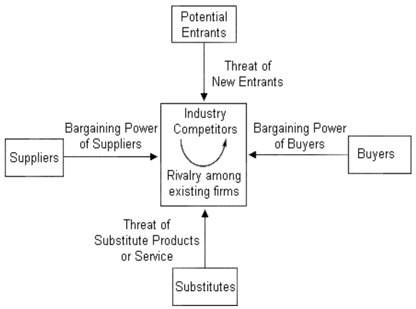
Threat of substitutes

- Customer switching costs
- Buyer inclination to substitute
- Price-performance trade-off of substitutes



Internal rivalry

- Economic factors
  - Industry concentration
  - Fixed costs, scale requirements
  - Exit barriers
  - Intermittent overcapacity
  - Industry growth
- Customer perceptions
  - Product differences
  - Switching costs
  - Brand identity
  - Diversity of rivals



Critique of Porter

- Product of its times (1980s)
  - Relatively stable environment
  - Manufacturing model
- Not a very clear taxonomy
  - Competitors: actual and potential?
  - Substitutes: internal or external?
- Not much emphasis on technology and innovation

Cooperative Strategies

- Cooperative Strategy – strategy in which firms work together to achieve a shared objective
- Co-opetition – condition created when firms that have formed cooperative strategies also compete against one another in the marketplace

Reasons for Cooperative Strategies

- Most firms lack the full set of resources and capabilities needed to reach their objectives
- Cooperative behavior allows partners to create value that they couldn't develop by acting independently
- Aligning stakeholder interests (both inside and outside of the organization) can reduce environmental uncertainty
- Alliances can provide a new source of revenue

Reasons for Cooperative Strategies

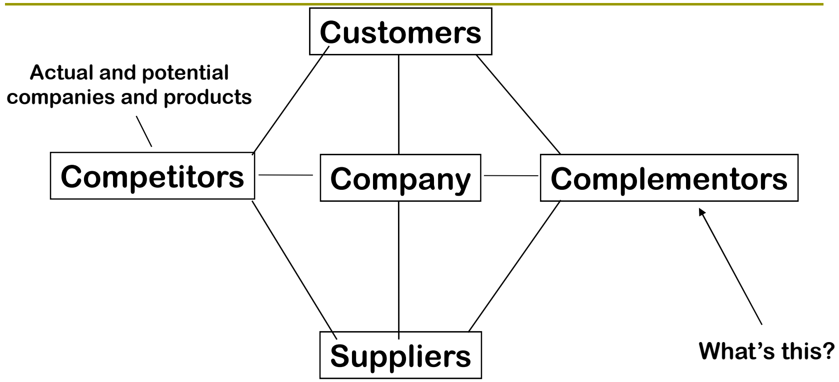
- Cooperation can be a vehicle for firm growth
- cooperation can enhance the speed of responding to market opportunities, technological changes, and global conditions
- Alliances allow firms to gain new knowledge and experiences to increase competitiveness
- Reasons for using cooperative strategies vary across market type

Defining Coopetition

- **Three properties of coopetition include:**
- **Cooperation and competition coexist between the same global rivals**
- **Cooperation and competition exist during one period**
- **Coopetition may occur at corporate-, division-, or subsidiary-levels, depending on a firm's strategic intent and organizational needs**

Brandenberger and Nalebuff

Value Net



Co-opetition and complements

- Customers value entire system
  - Hardware+software, DVD player+disks
- Sometimes you compete, sometimes you co-operate
  - Think of Intel and Microsoft, IBM and Oracle
  - Not a zero sum game!
- Complementors can be critical to your business, particularly in technology

COMPANIES ARE

- COMPLEMENTORS IN MAKING MARKETS
- COMPETITORS IN DIVIDING UP MARKETS

Dynamic nature of coopetition

- **The cooperative and competitive mix does not necessarily remain constant over time**
- **Whenever market conditions and internal needs change, the desired level of cooperation or competition will change**
- **Coopetition is a loosely coupled relationship in which players maintain certain interdependence without losing organizational separateness**
- **Coopetition is affected by dynamic conditions happening outside of the relationship: there are many other competitors in the global market**

When does cooperation increase?

- **When coopetiting players face increasingly competitive threats from other players who challenge their joint positions**
- **When global consumers become increasingly sophisticated by demanding new technology, better functionality, and additional services**
- **When coopetiting players encounter increasing pressure for global value chain integration. This pressure may stem from the increasing importance of economies of scale, cost-cutting pressure, and new capability development**

When does cooperation increase?

- **When global rivals confront increasing hazards from institutional environments, especially regulatory hindrances, whether originating at home or in foreign countries. It is difficult for individual players to mitigate these hazards without uniting. Collective power and a harmonious group voice help all members in the group**
- **When coopetiting players have generated greater interorganizational attachment over time. As attachment rises, they will be committed to continuously investing in their relation-specific routines (e.g., Toyota with GM, SAAB, and Suzuki)**

When does competition increase?

- **When global rivals' competitive goals increasingly converge or overlap. This may occur if:**
  - **The rivals use the same competitive strategies**
  - **Market fields for competing firms expand, wherein two players both envision the common market as strategically paramount to their global operations, or**
  - **Product and business portfolio similarity increases**
- **When industry competition solidifies**
- **When competitive symmetry increases. If A is B's primary competitor, it does not necessarily follow that B is A's primary competitor (e.g., GE perceives Haier as a competitor only in the low-end to mid-end markets)**
- **When resource interdependence between global rivals decreases**

Opponent as Obstacle

- Opponent is a hindrance standing in the way of a goal
- Promotes a more aggressive environment for sport
- Fosters domination over the opponent
- Opponent's goals are incompatible