

Scanning for market threats

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Abstract

Purpose – This paper seeks to focus more attention on market threat variables, their role in contributing to market risk and how to anticipate them.

Design/methodology/approach – Selected marketing and economics variables are considered in the context of their potentially dangerous or destructive impacts on business markets. Numerous “real world” examples are used to demonstrate the negative effects of these variables.

Findings – A matrix based on market information levels and lead times is introduced to demonstrate how the threat variables can be classified in terms of their potential risk to the business marketer. The threat variables can then be located on the risk matrix and the degree of their potential danger can be defined.

Originality/value – The discussion should hopefully be of use to both students and practitioners. An “early warning” template is provided to help identify specific variables and their risk potential so that scanning efforts can be prioritized according to the most likely sources of market threats.

Keywords Risk analysis, Business-to-business marketing, Marketing management, Lead times

Paper type General review

An executive summary for managers can be found at the end of this article.

Introduction

The objective of this paper is to provide a framework for the monitoring and early detection of external factors to the firm that have the potential to threaten its markets. The marketing and economics variables discussed here will be familiar. The focus specifically on their negative aspects and the framework used to prioritize their threat potential to the business to business (B2B) marketer, however, may be less familiar. The intent is to provide managers with an “early warning” list of threat variables and a priority structure of the most dangerous ones so that they can be monitored more carefully and more often.

The approach used here is linked to a number of long established research streams. Market threat detection builds on the defender strategies literature developed by Trout and Ries (1978) and Kotler and Singh (1981). A long-standing literature on environmental scanning (Kotler and Cunningham, 2004) is also relevant to market threat analysis. Similarly, strategic management texts such as Hill and Jones (2004) traditionally review elements of the literature on SWOT analysis. These areas all bear directly on this discussion by nature of their focus on market factors external to the firm.

Porter’s work on competitive strategy (Porter, 1980) and competitive advantage (Porter, 1985) similarly provides a useful foundation for this discussion with its examination of the importance of external advantages when assessing firms, their products and industries. Unlike Porter (1985), however,

the focus here is on the disadvantages and dangers of these variables. The threat variables examined are capable of eroding not only the market share of individual products but also the survival of firms and in extreme cases, entire industries.

Another area of research that is germane relates to cannibalization. Chandy and Tellis (1998) suggest that firms must sometimes cannibalize on purpose when forced by technological threats from competitors because of the need to remain competitive in the face of radical product innovation. This paper adopts a perspective somewhat similar to theirs and examines the role of other external threat variables as well, that might potentially cause firms to voluntarily cannibalize products.

The framework for discussion is shown in Figure 1, which should be interpreted as a conceptual model where the intent is to explain the market threat variables in terms of their potential risk. The underlying premise is that those variables embodying the most market risk are those meriting the closest and most consistent monitoring. The dimensions used to define the risk classifications in Figure 1 are delineated by a temporal parameter on the horizontal axis and a market knowledge or information level parameter on the vertical axis (Li and Calantone, 1998). The rationale for using these two dimensions is first, that high information levels about potential market threats allow the firm to better prepare a defense for its products and services thus reducing the risk. Second, the temporal parameter addresses the amount of lead time before impact of the market threat. Long lead times help to mitigate the threat because the manager has more time to acquire extra market information needed to prepare for its impact or to take the necessary defensive steps to counter it. In related research, Booth and Philip (1998) suggested that the ability to sense and quickly adapt to change is necessary to neutralize temporally based market threats, and Meredith (1989) suggested that long lead times are a necessary objective in creating marketing early warning systems within

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