

BUSINESS STRATEGIES



PAPER



TOPIC

STRATEGIC MANAGEMENT PROCESS

Outline/Explain/Describe/Discuss the strategic management process (4)

- The strategic management process is defined as the way in which an organisation defines its strategy.
- It enables managers to make choices/devise actions regarding a set of strategies that will enable the business to enhance/achieve improved performance.
- It is a continuous process that enables the business to identify/improve its ability to deal with challenges and enables businesses to implement strategies that will improve performance.
- The main purpose of the strategic management process is that the business maintains a competitive advantage over competitors.

Apply the strategic management process to solve business-related problems. (4)

- Review/Analyse/Re-examine their vision/mission statement.
- Conduct (an) environmental analysis/environmental scanning using models such as SWOT Analysis/Porter's Five Forces Model/PESTLE Analysis.
- Formulate a strategy such as a(n) integration/intensive/diversification/defensive strategy.
- Implement a strategy, using a template such as an action plan.
- Control/Evaluate/Monitor the implemented strategy to identify gaps/deviations/differences in implementation.
- Take corrective action to ensure goals/objectives/aims are met.

SWOT ANALYSIS



Compile a SWOT analysis of a particular business from a given scenario.

QUESTION 1

1.1 Read the scenario below and answer the question that follow.

EBRAHIM INSURERS (EI)

Ebrahim Insurers has a high brand visibility within the market. The demand for insurance services has reduced due to the introduction of Covid-19 vaccinations. Super Insurers that is situated nearby to EI has closed down. Sam the manager contributes toward an ineffective organisational culture.

1.1.1 Compile a SWOT analysis for EI from the scenario above. Use the table below as a GUIDE to answer QUESTION 1.1.1.

STRENGTH	WEAKNESS
OPPORTUNITY	THREAT

(4)

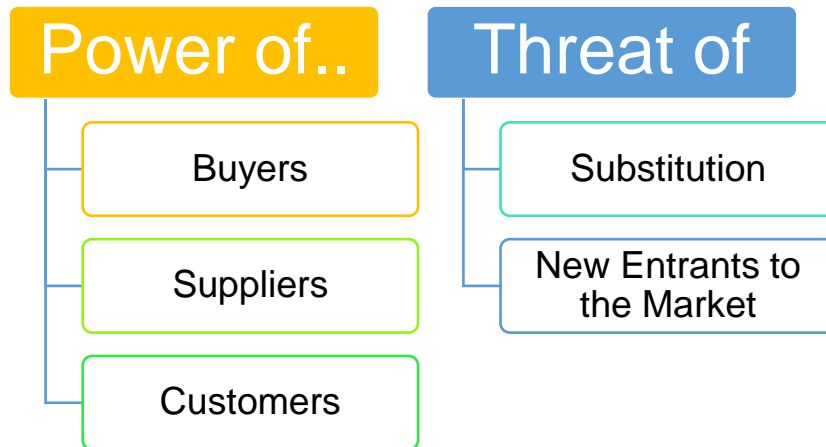
Suggested answer

1.1.2 SWOT analysis of EI (the business)

STRENGTH	WEAKNESS
Ebrahim Insurers (EI) has high brand visibility within the market. ✍	Certain managers contribute towards an ineffective organisational culture. ✍
OPPORTUNITY	THREAT
A competitor in the market has closed down. ✍	The demand for insurance services has declined because of the Covid-19 pandemic. ✍

(4)

PORTER'S FIVE FORCES



Name and identify Porter's Five forces model from given statements/scenarios.

Explain/Advise businesses on how they could apply Porter's Five Forces model to analyse their position in the market.

Power of Buyers

- A few powerful buyers are often able to dictate their prices to the business.
- Assess how easy it is for buyers/customers to decrease prices.

Power of Suppliers

- Suppliers that deliver high quality/unique/scarce products may have power over the business.
- The more powerful the suppliers, the less control the business has over them.

Power of Competitors

- Competitors selling the same/similar products/services may have a greater impact on the market of the business.
- If competitors have a unique/scarce product/service, then they will have greater power.

Threat of Substitutes

- If the business's product can be easily substituted, it weakens/reduces the power of the business in the market.
- If the business sells unique/scarce products it will not be threatened/influenced by substitute products.

Threat of New Entrants into the Market

- If the barriers to enter the market are low, then it is easy for new businesses to enter the market/industry.

- New businesses can quickly/easily enter the market if it takes little time/money/resources to enter the market.

Name and apply PESTLE analysis factors from given scenarios/statements.
 You won't be required to list the examples but will assist you in identifying them from a scenario given

PESTLE EXAMPLES

POLITICAL	<ul style="list-style-type: none"> • Political stability/instability • Foreign trade policy • National Competition policy
ECONOMIC	<ul style="list-style-type: none"> • Economic growth/economic stability • Exchange rates • Inflation rates (prime rate and repo rate)
SOCIAL	<ul style="list-style-type: none"> • Demographics of consumers • Income/wealth distribution • Education level/literacy level
TECHNOLOGICAL	<ul style="list-style-type: none"> • Level of technological innovation • Access to new technology • Internet/communication infrastructure
LEGAL	<ul style="list-style-type: none"> • Labour/employment laws • Copyright/patent laws • Privacy and data protection laws
ENVIRONMENTAL	<ul style="list-style-type: none"> • Climate/climate change/global warming • Carbon footprint reduction • Environmental sustainability/conservation/preservation

PESTLE CHALLENGES & RECOMMENDATIONS TO DEAL WITH THE CHALLENGES (All)

PESTLE factor: Political	
Challenges	Recommendations
<ul style="list-style-type: none"> Some government policies may affect businesses. 	<ul style="list-style-type: none"> Research/apply recent government policies.
<ul style="list-style-type: none"> Consumer rights organisations may prevent businesses from selling products if they do not meet certain requirements. 	<ul style="list-style-type: none"> Network/lobby with the NGOs/CBOs and all consumer rights organisations.
<ul style="list-style-type: none"> Trade agreements may prevent businesses from importing some medicine/products. 	<ul style="list-style-type: none"> Trade only with countries that have favourable trade agreements with the government.
<ul style="list-style-type: none"> The National Competition Policy of South Africa may influence the operations of a business. 	<ul style="list-style-type: none"> Investigate/adhere to/comply with the National Competition Policy.

PESTLE factor: Economic	
Challenges	Recommendations
<ul style="list-style-type: none"> High inflation/interest rates may negatively impact business/decrease the market share of business as customers cannot afford high prices/increases in taxes lowers consumer spending. 	<ul style="list-style-type: none"> Consider decreasing profit margins rather than increasing product prices.
<ul style="list-style-type: none"> Loans may be expensive because of high interest rates. 	<ul style="list-style-type: none"> Borrow money from financial institutions when interest rates are favourable.
<ul style="list-style-type: none"> Fluctuations in foreign currency may restrict imports. 	<ul style="list-style-type: none"> Consider exchange rates when trading with other countries./Trade with countries with a favourable exchange rate.
<ul style="list-style-type: none"> Decreases in foreign direct investment by important foreign investors. 	<ul style="list-style-type: none"> Provide shares at competitive/lower prices to attract more foreign direct investment.

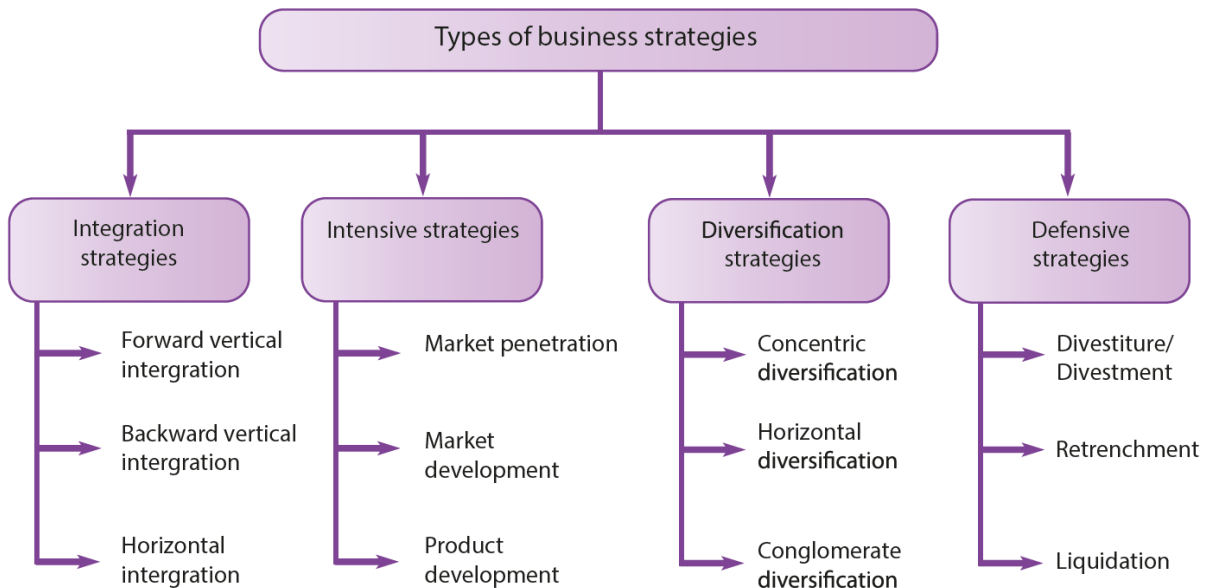
PESTLE factor: Social	
Challenges	Recommendations
<ul style="list-style-type: none"> Customers may not be able to afford products because of low income levels/retrenchment/ unemployment. 	<ul style="list-style-type: none"> Sell substitute products at lower prices due to low levels of income distribution/Employ people from the local community.
<ul style="list-style-type: none"> Businesses may not be conversant with the local/indigenous language of their customers. 	<ul style="list-style-type: none"> Learn local/indigenous languages/hire employees who are well conversant with the local/indigenous language of customers.
<ul style="list-style-type: none"> High crime rates may affect the trading hours of businesses resulting in decreased profit. 	<ul style="list-style-type: none"> Work together with community police forums and improve security in the business.
<ul style="list-style-type: none"> Some businesses may lose sales as customers may prefer to spend their money on medical bills/expenses. 	<ul style="list-style-type: none"> Develop/produce/incorporate/innovate new products that aim to address the lifestyle attitudes/trends of customers.

PESTLE factor: Technological	
Challenges	Recommendations
<ul style="list-style-type: none"> May not keep up with/be aware/stay abreast of the latest technology. 	<ul style="list-style-type: none"> Conduct continuous research on the latest available technology/equipment in the market.
<ul style="list-style-type: none"> Employees may not be skilled to operate/maintain new technology/equipment. 	<ul style="list-style-type: none"> Train existing/appoint new employees to maintain/use new equipment/technology.
<ul style="list-style-type: none"> Businesses may not be able to afford new technology. 	<ul style="list-style-type: none"> Compare prices/Select suitable suppliers for new equipment/machinery/technology at reasonable prices.
<ul style="list-style-type: none"> May not be able to cater for/afford/have access to online transactions/e-commerce. 	<ul style="list-style-type: none"> Businesses must be geared for online trading/e-commerce.

PESTLE factor: Legal	
Challenges	Recommendations
<ul style="list-style-type: none"> Consider the implication of the various Acts that may have a direct impact/influence on a business, for example, the CPA/BCEA. 	<ul style="list-style-type: none"> Comply with all relevant legislation that may impact businesses.
<ul style="list-style-type: none"> Legal requirements for operating certain types of businesses are time-consuming. 	<ul style="list-style-type: none"> Comply with the legal requirements for operating businesses, for example, licence/trademark registration/patents.
<ul style="list-style-type: none"> High legal costs involved in obtaining a licence/trademark/patent/copyright may prevent some establishments. 	<ul style="list-style-type: none"> Budget for high legal establishment/start-up costs.
<ul style="list-style-type: none"> Legalities of business contracts may limit business operations. 	<ul style="list-style-type: none"> Businesses must know/understand the legalities of business contracts so that they comply with all the requirements.

PESTLE factor: Environmental	
Challenges	Recommendations
<ul style="list-style-type: none"> Chemicals/Ingredients in business' products may be harmful to consumers. 	<ul style="list-style-type: none"> Chemicals/Ingredients should be indicated on labels/packaging to inform customers about possible side effects/correct use of products/discard the ingredients/origin of the product to consumers.
<ul style="list-style-type: none"> Measures to dispose of business waste may be expensive. 	<ul style="list-style-type: none"> Implement cost-effective measures to dispose of medical waste.
<ul style="list-style-type: none"> Packaging of some products may not be environmentally friendly/may not be recyclable. 	<ul style="list-style-type: none"> Implement recycling measures to prevent pollution of the environment./ Use packaging that is reusable/recyclable/bio-degradable.
<ul style="list-style-type: none"> The business may not be aware that its current practices are environmentally unsustainable/contribute towards environmental degradation. 	<ul style="list-style-type: none"> Engage in environmentally sustainable practices such as the conservation/preservation of natural resources.

BUSINESS STRATEGIES (All)



INTEGRATION STRATEGIES

Forward vertical integration (2)

- The business takes over its **distributors** down the **supply chain**. The business merges with businesses that were once their customers, while still maintaining control of the initial/primary business activity
- It involves the expansion of business activities to gain control over the distribution of products/services.
- Eg. A wheat farmer buys the bread manufacturing company which sells the crops to a bakery.

Backward vertical integration (2)

- The business takes over its **suppliers** up the **supply chain**. The business expands its role to fulfil activities/tasks that were previously completed by suppliers.
- This is done to decrease the business's dependency on suppliers.
- Eg. The bakery purchases a bread manufacturing company or a wheat farm.

Horizontal integration (2)

- The business takes control of other businesses in the **same/related** industry that produce/sell the **same/similar** products. It is the takeover of a related business that operates at the same level of the supply chain in the industry.
- The aim is to reduce the threat of competition/substitute products/services.
- Eg. The bakery takes over another bakery in Gqeberha.

INTENSIVE STRATEGIES

Market penetration (2)

- The business focuses on selling **existing** products into the existing market to increase their market share.
- Market research on existing/current consumers/customers is used to determine how to improve the marketing mix of the business.
- Eg. A bakery undergoes aggressive marketing by having a sale on their existing cakes.

Market Development (2)

- The business uses this growth strategy to sell its **existing products** in new markets.
- Consumers/customers are targeted in a potential market that is outside of its normal/regular/current target market. The business increases sales of existing/current products
- Eg. The bakery, in Gqeberha, opens up a bakery in Cape Town.

Product Development (2)

- The business uses this growth strategy to introduce new products into **existing markets**.
- New ideas/products are generated/ produced by the business for existing/current markets.
- Eg. The bakery now offers frozen muffin and cake mix to their existing customers.

Advantages of Intensive Strategies (4)

- Increase the control over the prices charged for products/services.
- Increase customer loyalty through effective promotion campaigns.
- Decrease prices that may influence customers/consumers to buy more products/services.
- Increase in regular sales from existing customers/consumers that may increase.
- Remove existing competitors and dominate market prices.

DIVERSIFICATION STRATEGIES

Concentric Diversification (2)

- The business adds **new products** that are **related** to **existing products** but will appeal to **new customers**.
- Occurs when a business wants to increase/expand/progress its product range and markets.
- Eg. The bakery now offers baking equipment and machinery.

Horizontal Diversification (2)

- The business adds **new products** that are **unrelated** to **existing products**, but which may appeal to **existing customers**.
- Occurs when a business acquires/merges with a business that is at the same production stage, but it may offer a different product.
- Eg. The bakery offers customers the option to hire packaging materials for food items.

Conglomerate Diversification (2)

- The business adds **new products** that are **unrelated** to **existing products** which may appeal to **new groups** of customers.
- Occurs when the business operates multiple product lines/business entities for entirely different industries/consumers/customers.
- Eg. The bakery opens up a hard ware store next door.

Advantages of Diversification Strategies (4)

- Establish additional new markets in unrelated markets/industries.
- Gain more technological capabilities through product modification.
- Improve brand/image/brand awareness of the business.
- Reduce the risk of relying only on one product for sales/revenue/income.
- Increase sales and business growth.

DEFENSIVE STRATEGIES

Divestiture (2)

- The business sells some assets that are no longer profitable.
- Selling off divisions/product lines with slow growth potential/Paying off debts by selling unproductive assets.
- The business decreases the number of shareholders by selling ownership.
- Eg. Spar stops selling fresh woodfire pizza and sells their pizza oven.

Retrenchment (2)

- The business terminates the employment contracts of employees for operational reasons.
- Closing some departments may result in some workers becoming redundant.
- Eg. Spar retrenches some of its workers due to a loss in sales post Covid.

Liquidation (2)

- Selling all assets / Bringing the business activities to an end to pay creditors due to lack of capital.
- It is a(n) unpleasant process of bringing business activities to an end/last resort to repay creditors.
- Eg. Spar closes all of its shops in South Africa due to poor performance and uses the money to pay their suppliers.

STRATEGY EVALUATION

Outline/Explain/Recommend/Advise businesses on the steps in strategy evaluation: (4)

- Examine the underlying bases of the business strategy.
- Look forward and backwards into the implementation process.
- Compare expected performance (measure business performance).
- Take corrective action where necessary.
- Set specific dates for control and follow up.
- Decide on the desired outcome.