GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

BUSINESS STUDIES

GRADE 12

TERM ONE

CHAPTER5

BUSINESS STRATEGIES

2019

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CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES
Learners must be able to:

- Define a strategy
- Outline/Describe/Explain/Discuss the strategic management process.
- Apply the strategic management process to solve business-related problems.
- Identify business challenges from given case studies.
- Identify and describe/explain/discuss the different types of business strategies.
- Devise/Develop/Analyse/Formulate strategies to overcome challenges from given scenarios of businesses and make recommendations for improvement.
- Explain how/when businesses can apply each type of business strategy.
- Evaluate the effectiveness (positives) of each type of business strategy.
- Analyse case studies and apply the following industrial analysis tools to analyse the challenges of the business environment:
  - SWOT analysis
  - Porter's Five Forces
  - PESTLE analysis
- Recommend business strategies to address challenges identified from given case studies/scenarios.
- Outline/Explain/Recommend activities/steps in strategy evaluation.

Term	Definition
Formulation of strategies	To devise/develop a strategy.
Implementation of strategies	This takes place after the formulation of the strategy and involves all the activities that are required for putting the strategy
Evaluation of strategies	This takes place after the implementation of the strategy and determines whether the implemented strategy resolved the challenge.
Industry analysis tools	SWOT, Porter's Five Forces and PESTLE analysis models are used to analyse the challenges posed by business environments.
Suppliers	Include factories/providers of goods/services that businesses would obtain/buy from in order to operate their business.
Buyers	The final users of the product/services.
Competitors	All other businesses selling the same/similar products/services
Substitute product or service	Different products/services that satisfy the same needs of consumers and can be used to replace one another.
New Entrants	New businesses that are selling the same/similar products entering the market for the first time.

Definition of a strategy

- A strategy is a long term plan of action to achieve a goal.
- A strategy is a plan of action to address an opportunity or to solve a problem.
- The business needs a strategy to achieve its vision and mission.

Steps in developing a strategy

- Application of SWOT analysis/PESTLE/Porter's Five Forces/environmental scanning of the business environments.
- Formulate strategies to meet objectives/Develop measurable strategic goals/ objectives.
- Implement strategies using action plans, etc.
- Evaluation of strategies/Compare the expected performance with the actual performance/ Measure business performance in order to determine the reasons for deviations and analyse these reasons, etc.

The strategic management process

- Have a clear vision, a mission statement and measurable/realistic objectives in place.
- Identify opportunities/weaknesses/strengths/threats by conducting environ-mental scanning/situational analysis.
- Tools available for environmental scanning may include a SWOT analysis/Porter's Five Forces model/PESTLE analysis/industrial analysis tools.
- Formulate alternative strategies to respond to the challenges. (**This involves different types of business strategies)**
- Develop (an) action plan(s), including the tasks to be done/deadlines to be met/resources to be procured, etc.
- Implement selected strategies by communicating it to all stakeholders/organising the business's resources/motivating staff.
- Continuously evaluate/monitor/measure strategies in order to take corrective action. (**This involves steps in evaluating a strategy)**

NOTE: The industrial analysis tools (SWOT, PESTLE AND PORTERS'FIVE) and business strategies form part of the strategic management process.

Explanation of a SWOT ANALYSIS

STRENGTHS	WEAKNESSES
• What advantages does your organisation have and what do you do better than anyone else? • What unique or lowest-cost resources can you draw upon that others can't? • Do you have skilled employees and a strong customer base? • Do you provide high quality product? • Do you have sufficient resources? • What is your core competency?	• High cost infrastructure • High employee turnover • Weak brand portfolio • High debts level • What are people in your market likely to see as weaknesses? • What factors cause loss of sales • Are your competitors doing any better than you?

OPPORTUNITIES • Market growth for the business product. • New technology that will enhance quality services and products • Changing customer habits. • Disposable income level will increase. • Government's incentives for 'specific industry • Growing number of people buying on line (electronic marketing) • What good opportunities can you spot?	**THREATS** • Corporate tax may increase • Rising pay levels. • Intense competition. • Increasing fuel price. • Aging population. • Stricter laws regulating environment pollution • Currency fluctuations. • Changing technology.

NOTE: The SWOT analysis can is usually assessed in the form of a scenario as indicated below:

Example of a scenario that requires learners to compile a SWOT analysis

DAVE DIGITAL SOUND (DDS)
DDS specialises in selling radios and car sound systems. They employ qualified sound engineers. The business does not have sufficient capital to buy and sell sound systems that cater for large events. Businesses in the same industry are closing down due to ineffective marketing campaigns. DDS is located in a high crime area.

SWOT analysis of Dave Digital Sound DDS

STRENGTHS	WEAKNESSES
• DDS employs qualified sound engineers. • DDS specialises in selling radios and car sound systems.	• The business does not have sufficient capital to buy/sell sound systems that cater for large events.
OPPORTUNITIES	**THREATS**
• Businesses in the same industry are closing down due to ineffective marketing campaigns.	• DDS is located in a high crime area.

NOTE: You need to quote verbatim (as is) from the scenario, otherwise you will lose marks for writing incomplete quotes or for writing a summary of the scenario.

ANALYSIS OF INDUSTRIAL ANALYSIS TOOL

1 PORTERS' FIVE FORCES MODEL

Power of suppliers

- A business must assess the power of suppliers to influence prices.
- The more powerful the suppliers, the less control the business has over them.
- The smaller the number of suppliers, the more powerful they may be as the choice of suppliers may be limited.
- The business should identify the kind of power its suppliers have in terms of the quality of products/services/reliability/ability to make prompt deliveries.

Power of buyers

- Buyers buying in bulk can bargain for prices in their favour.
- If a business is dealing with a few powerful buyers, they are often able to dictate their terms to the business.
- If buyers can do without the business's products then they have more power to determine the prices and terms of sale
- The business must assess how easy it is for buyers/customers to drive prices down.
- This will depend on the number of buyers/the importance of each buyer to the business and the cost of switching to other products.

Power of competitors/Competitive rivalry

- Competitive rivalry refers to the number of competitors and their ability to influence/control the market.
- If competitors have a unique product/service, then they will have greater power.
- A business with many competitors in the same market has very little power in their market.
- Businesses must draw up a competitor's profile so that they can determine their own strength as well as that of competitors.

Threat of substitution/substitutes

- Substitute products or services are different products/services that satisfy the same needs of consumers and can be used to replace one another.
- If the business's product can be easily substituted, it weakens the power of the business in the market.
- Substitute products may cause the business to completely lose its market share.
- Unique products will not be threatened by substitute products.

Threat/Barriers of new entrants to the market

- New entrants are other businesses that are selling the same/similar products in the existing market for the first time.
- The power will depend on how easy it is for new businesses to enter the market.
- New competitors can quickly/easily enter the market, if it takes little time/ money to enter the market.
- If there are a few suppliers of a product/service but many buyers, it may be easy to enter the market.
- If the business is highly profitable, it will attract potential competitors that want to benefit from high profits.
- If the barriers to enter the market are low, then it is easy for new businesses to enter the market/industry.

NOTE: The main aim of Porter's Five Forces model is to analyse the business position in the market. This is more of a research study done by businesses. Do not focus on recommendations as this is not required at this stage.

2 PESTLE ANALYSIS

NOTE: You need to name the PESTLE factor, identify challenges of each factor and make recommend ways businesses can deal with the identified challenges as explained in the table below:

FACTOR	CHALLENGE	RECOMMENDATIONS
Political	• Some government policies may affect businesses • Consumer rights organisations may prevent businesses from selling products if they do not meet certain requirements. • Trade agreements may prevent businesses from importing some medicine/products.	• Research recent government policies • Network and lobby with the NGOs and all consumer rights organisations. • Trade only with countries that have favourable trade agreements with the government.
Economic	• Inflation/Interest rates may negatively impact on business. • Loans may be expensive due to high interest rates. • Fluctuations in foreign currency may restrict import.	• Consider decreasing profit margins rather than increasing product prices. • Borrow money from financial institutions when interest rates are favourable. • Consider exchange rates when trading with other countries
Social	• Customers may not be able to afford products due to low income levels. • Businesses may not be conversant with the local language of their customers.	• Sell substitute/generic products at lower prices. • Learn local languages/Hire employees who are well conversant with the local language.
Technological	• May not keep up with/be aware of the latest technology. • Employees may not be skilled to operate/maintain new technology/ equipment. • Businesses may not be able to afford new technology. • May not be able to cater for/ afford online transactions/e-commerce.	• Continuous research on the latest available technology/equipment in the market. • Train existing/appoint new employees to maintain/use new equipment. • Compare prices/Select suitable suppliers for new equipment at reasonable prices. • Businesses must be geared for online trading/e-commerce
Legal	• Consider certain Acts that may have a direct impact on a business, e.g. the CPA/BCEA. • Legal requirements for operating certain types of businesses time-consuming. • High legal costs involved in obtaining a licence/trade	• Comply with all relevant legislation that may impact on businesses. • Comply with the legal requirements for operating businesses, e.g. licence/trade mark registration/patents. • Budget for high legal establishment costs.

	mark/patent may prevent some establishments. • Legalities of business contracts may limit business operations	• Businesses must know the legalities of business contracts so that they comply with all the requirements.
Environmental	• Chemicals/Ingredients in business' products may be harmful to customers. • Measures to dispose of business waste may be expensive. • Packaging of some products may not be environmentally friendly may not be recyclable.	• Chemicals/Ingredients should be clearly indicated on labels/packaging to inform customers about possible side effects/correct use of products. • Implement cost effective measures to dispose of medical waste. • Implement recycling measures to prevent pollution of the environment/Use packaging that is re-usable/recyclable.

Types of business strategies
Integration strategies

Forward integration

- The business combines business with or take over its distributors.
- Involves expansion of business activities to gain control over the direct distribution of the products.

Backward integration

- The business combines business with or take over its suppliers.
- The aim is to decrease the business's dependency on the supplier

Horizontal integration

- A business takes control of/ incorporates other businesses in the same industry/which produce/sell the same goods/services.
- The aim is to reduce the threat of competition /substitute products/services.

Intensive strategies

Market penetration

- New products penetrate an existing market at a low price, until it is well known to the customers and then the prices increases.
- It is a growth strategy where businesses focus on selling existing products to existing markets.
- Focuses on gaining a larger share of the market by reducing prices to increase sales/increasing advertising and promotion.

Market Development

- It is a growth strategy where businesses aim to sell its existing products in new markets.

- This strategy involves finding new markets and new ways to distribute product.

Product Development

- It is a growth strategy where businesses aim to introduce new products into existing markets/modifies an existing product.
- Businesses generate new ideas and develop new products/services

Advantages of intensive strategies

- Increased market share reduces the business's vulnerability to actions of competitors.
- Increase in sales/income and profitability.
- Improved service delivery may improve business image.
- Businesses may have more control over the prices of products/services.
- Gain loyal customers through effective promotion campaigns.
- Decrease in prices may influence customers to buy more products.
- Regular sales to existing customers may increase.
- Eliminate competitors and dominate market prices.
- Enables the business to focus on markets/well researched quality products that satisfy the needs of customers.

Diversification strategies

Concentric diversification

- The business adds a new product or service that is related to existing products and which will appeal to new customers.
- Occurs when a business wants to increase its product range and markets.

Horizontal diversification

- The business adds new products or services that are unrelated/ different to existing products, but which may appeal to existing/current customers.
- Occurs when a business acquires or merges with a business that is at the same production stage, but it may offer a different product

Conglomerate diversification

- The business adds new products or services that are unrelated to existing products which may appeal to new groups of customers.
- Conglomerate diversification means that a business grows into new products, services and markets.
- Occurs when a business wants to increase its product range and markets.

Advantages of diversification strategies

- Increase sales and business growth.
- Diversification into a number of industries or product line can help create a balance during economic fluctuations.
- More products can be sold to existing customers and additional more new markets can be established.
- Businesses gain more technological capabilities through product modification.
- Business produce more output using less inputs as one factory may be used to manufacture more products.
- Improves the business brand and image.
- Reduces the risk of relying only on one product.

Types of defensive strategies

Divestiture/ Divestment

- The business disposes/sells some assets/divisions that are no longer profitable/ productive.
- Businesses may sell off divisions/product lines with slow growth potential.
- The business sells ownership by decreasing the number of shareholders.
- Unproductive assets are sold to pay off debts.
- Process used to withdraw its investment in another business (divesting).

Retrenchment

- Terminating the employment contracts of employees for operational reasons.
- Decreasing the number of product lines/Closing certain departments may result in some workers becoming redundant.

Liquidation

- All assets are sold to pay creditors due to a lack of capital/cash flow.
- Selling the entire business in order to pay all liabilities/close down the business.
- Companies in financial difficulty may apply for business rescue to avoid liquidation.
- Creditors may apply for forced liquidation in order to have their claims settled.

Steps in evaluating a strategy

- Examine the underlying basis of a business strategy.
- Look forward and backwards into the implementation process.
- Compare the expected results in order to determine the reasons for deviations and analyse these reasons.
- Take corrective action so that deviations may be corrected.
- Set specific dates for control and follow up.
- Draw up a table of the advantages and disadvantages of a strategy.
- Decide on the desired outcome.
- Consider the impact of the strategic implementation in the internal and external environments of the business.