

Macro environment: Business strategies

Businesses are faced with many challenges in all three business environments. These challenges may have a negative impact on business success. It is important that these challenges are identified. Industrial analysis tools are used to analyse the challenges of the business environment.

Businesses must devise strategies to address and respond to the identified challenges. They must continuously evaluate the effectiveness of implemented strategies.

Overview

| | CONTENT | CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES |
|---|--|--|
| Macro environment: Business strategies | <ul style="list-style-type: none"> • Definition/ description of a strategy • Steps in developing a strategy • The strategic management process • Types of business strategies • Effectiveness (positives) of each type of business strategy • Industrial analysis tools <ul style="list-style-type: none"> ○ SWOT analysis ○ Porter's Five Forces ○ PESTLE analysis • Activities/steps in strategy evaluation | <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - 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. |

Key concepts

These definitions will help you understand the meaning of key Business Studies concepts that are used in this chapter.

| Term | Definition |
|-------------------------------|--|
| Business environment | The business environment includes all those factors that affect a company's operations. The business environment consists of micro, market and macro environment. |
| Micro or internal environment | The environment within the business. The business has full control over the factors in this environment. |
| Market or task environment | The external environment that influences the organization directly. E.g. suppliers, customers/consumers, intermediaries, competitors, civil society, regulators and strategic allies. Business has limited control over these factors. |
| Macro-environment | The major external and uncontrollable factors that influences an organization and effect its performance. E.g. Natural/physical environment, economic environment, social, cultural and demographic environment, the political and legal, the technological and the international environment. |
| Formulation of strategies | To devise/develop a strategy. |
| Implementation of strategies | It takes place after the formulation of the strategy and involves all the activities that are required into putting the strategy into action. |
| Evaluation of strategies | It 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 model is used to analyse the challenges of the business environment. |
| 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 | Are selling the same/similar products/services as the business. |
| Substitute product or service | Are different products/services that at least partly satisfy the same needs of consumers and can be used to replace one another. |
| New Entrants | Are other businesses that are selling the same/similar products in the existing market for the first time. |

Steps in developing a strategy

Definition/ description of a strategy

A strategy is a plan of action to address an opportunity or to solve a problem/respond to a challenge.

Steps



- Environmental scanning of the business environments by application of SWOT analysis/PESTLE/Porter's Five Forces model.
- Formulate strategies to meet objectives
- Implement strategies using action plan
- Evaluation of strategies/Compare the expected performance with the actual performance.



Activity 1

Read the following scenario and answer the questions that follows:

Flex Building Suppliers is struggling to make a profit and their sales are decreasing every month. They are concerned about their situation and decide to compile a SWOT analysis.

1. Identify the step in developing a strategy that Flex Building Suppliers used in the scenario above. [2]
2. Name the THREE other steps that they will still have to use in developing a strategy. [3]

Answer to activity 1

1. Environmental scanning of the business environments√√
2. Formulate strategies to meet objectives√
Implement strategies using action plans√
Evaluation of strategies/Compare the expected performance with the actual performance.√

The strategic management process

- Review vision statement.
- Analyse/Re-examine mission statement.
- Conduct an analysis using models such as PESTLE/PORTERS.
- Formulate strategy, referring to strategies such as defensive/retrenchment.
- Implement strategy, using templates such as action plans.
- Control of strategy to identify gaps in planning.
- Evaluate strategy to identify deviations in implementation.
- Take corrective action to ensure goals/objectives are met.



Activity 2

Read the following scenario and answer the question that follow:

Helen owns a hair salon. She is a very good hairdresser, but she finds it hard to compete with other salons offering services at lower prices. She wants to use the strategic management process to overcome her business challenge, but lacks knowledge of the process.

1. Explain to Helen how to use the strategic management process to overcome her business challenge.

[10]

Answer to activity 2

- Review✓ vision statement.✓
- Analyse/Re-examine✓ mission statement.✓
- Conduct an analysis using models✓ such as PESTLE/PORTERS.✓
- Formulate strategy✓, referring to strategies such as defensive/retrenchment.✓
- Implement strategy✓, using templates such as action plans.✓
- Control of strategy✓ to identify gaps in planning.✓
- Evaluate strategy✓ to identify deviations in implementation.✓
- Take corrective action✓ to ensure goals/objectives are met.✓

Types of business strategies

Integration strategies

Definition: *It involves taking over or merging with other businesses to increase growth potential.*

Types

- Forward vertical integration
 - A business combines/takeover/merge with the seller/retailer/distributor of their products.
- Backward vertical integration
 - A business combines/takeover/merge with their supplier to reduce dependency.
- Horizontal integration
 - Business takes control of other businesses selling/providing the same products/services (competitor).

Intensive strategies

Definition: *It involves increasing sales and market share by making use of existing products and resources through extreme efforts.*

Types

- Market penetration
 - Businesses use aggressive marketing campaigns, e.g. low prices, to attract competitors' clients/attempt to persuade consumers that are already buying their products to continue supporting them.
 - Increase the market share of existing products/Promote new products that have become well established.
 - Reduce prices to increase sales.
- Market development
 - A process of exploring/finding/searching new markets for existing products.
 - Businesses sell their existing products to new markets.
 - Example: Finding new markets in other towns and cities.
- Product development
 - Businesses generate new ideas and develop a new product or service.
 - The introduction of a new product or service into existing markets.
 - Example: A cell phone manufacturer designs a new phone that can also be used to make internet phone calls.

Diversification strategies

Definition: *A business adds related products to its current product.*

Types

- Concentric diversification
 - The business adds a new product or service that is related to the existing products and which will appeal to new consumers.
 - Occurs when a business wants to increase its product range and markets.
- Horizontal diversification
 - The business adds new products or services that are unrelated to existing products, but which may appeal to existing customers.
 - Occurs when a business acquires or merges with a business that is at the same production stage, but 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.

Defensive strategies

Definition: *It is a last resort after business have tried everything, it is to defend/protect the existence of the business.*

Types

- 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.
- Divestiture
 - The business disposes/sells some assets/divisions that are no longer profitable/productive.
 - Unproductive assets are sold to pay off debts/reduce operational costs.
- 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.



Activity 3

1 Identify a business strategy represented by EACH statement below:

- 1.1 The owner of Soup Kitchen decides to also sell freshly baked bread in her shop.
- 1.2 Fying Fisheries has opened new branches in the Eastern Cape to increase market share.
- 1.3 Ben's grape farm bought Juicy Stores.
- 1.4 Below Zero Stores reduced the prices of all there winter stock to encourage sales.
- 1.5 Komani Bricks sold all its assets to pay creditors and closed down the business.

(10)

Answer to activity 3

- 1.1 Horizontal diversification/Diversification√√
- 1.2 Market development/Intensive√√
- 1.3. Forward vertical integration/Integration√√
- 1.4 Market penetration/Intensive√√
- 1.5 Liquidation/Defensive√√



If asked to analyse/justify the effectiveness of business strategies responses must include positive or negatives or both.

Effectiveness (positives) of each type of business strategy

Integration strategies

- Ensure supplies and business has more control over the final prices of products.
- Eliminate competitors.
- Increase the profitability by not making use of a supplier/distributor.

Intensive strategies

- Increased market share reduces the business's vulnerability to actions of competitors.
- Control over prices may increase/improve.
- Increase in sales/income and profitability.
- Improved service delivery may positively impact/increase sales
- Decrease in price could influence customers to buy more products.

Diversification strategies

- Diversification is not risky because the business is already familiar with its existing product/customers.
- Sales would increase by adding the new/existing products to new/existing markets.
- The business will be highly competitive√ by adding the new/existing products it would increase the target market.
- The business's present channels of distribution can be used to market the new/existing products to current/new customers.

Defensive strategies

- Decrease expenses of the business.
- Increase productivity by focusing on the activities that are profitable.
- Companies in financial difficulty may apply for business rescue to avoid liquidation.



Activity 4

Discuss the effectiveness of intensive strategies in addressing business challenges.
(8)

Answer to activity 4

- Increased market share√ reduces the business's vulnerability to actions of competitors.√
- Control over prices√ may increase/improve.√
- Increase in sales/income√ and profitability.√
- Improved service delivery√ may positively impact/increase sales√
- Decrease in price√ could influence customers to buy more products.√



Industrial analysis tools

Strengths &
Weaknesses are
INSIDE the
business.

Opportunities &
Threats are
OUTSIDE the
business.

SWOT analysis

Strengths

It is positive and within the control of the business.

Weaknesses

It is negative but within the control of the business.

Opportunities

It is positive, and not within the control of the business.

Threats

It is negative, but not within the control of the business.



Activity 5

1 Read the following scenario and answer the questions that follow:

Computer World (CW)

CW offers internet services to businesses. They employ qualified technicians to do the installation. The business does not have a reliable bookkeeping system. Businesses who offer the same services are closing down. CW is located in a high crime area.

- 1.1 Compile a SWOT analysis for CW. [4]
1.2 Suggest ONE strategy to handle each weakness and threat identified in Question 1.1 [4]

Answer to activity 5

1.1 SWOT ANALYSIS

Strengths

They employ qualified technicians.✓

Weakness

The business does not have a reliable bookkeeping system.✓

Opportunities

Businesses who offer the same services are closing down.✓

Threats

CW is located in a high crime area.✓

1.2 Strategy to handle not having a reliable bookkeeping system

- Outsource the bookkeeping activities of the business.✓✓
- Install an computerized accounting programme.✓✓
- Regularly check that the bookkeeping activities has been performed by the bookkeeping department.✓✓

Strategy to handle operating in a high crime area

- CW should install security systems/hire more security to safeguard the business.✓✓
- Engage in CSR/CSI programmes that are aimed at reducing crime in the community.✓✓
- Provide employment opportunities for local people/the community.✓✓
- Relocate the business to other areas where the crime rate is minimal.✓✓
- Work together with the Community Policing Forums (CPF).✓✓

Porter's Five Forces Model

The model is based on five important forces that will determine the competitive power in the market environment of a business.

TIP: Porter's Five Forces Model is not focusing on strategies to overcome the forces, BUT the focus is on analysing the position of the business in the market.



Power of suppliers

- A business must assess the power of the 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.

Power of buyers

- Buyers buying in bulk can bargain for prices in their favour.
- 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.
- If buyers can do without the business's products then they have more power to determine the prices and terms of sale.
- Businesses must conduct market research so that they can get more information about their buyers.

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

- If the business's product can be easily substituted, it weakens the power of the business in the market.
- Unique products will not be threatened by substitute products.
- Businesses should do market research to assess if customers using substitute products/services have reasons for using these alternatives.

Threat/Barriers of new entrants to the market

- 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.



PESTLE analysis

PESTLE is used to identify and evaluate the factors in the external environment that can influence the business

| PESTLE ELEMENT | CHALLENGES |
|----------------|--|
| Political | Trade agreements that prevent imports |
| Economic | High inflation/interest rates |
| Social | Low income of customers |
| Technological | Keeping up with the latest technology |
| Legislation | Paying fines for non-compliance to Acts |
| Environmental | Harmfulness of products/processes to the customers and environment |

You must be able to identify challenges from a scenario and make recommendations



Activity 6

1. Read the following scenario and answer the questions that follow:

ZUKO & PHIWE CLOTHING (ZPC)

ZPC specialize in manufacturing of clothing. The profitability of the business has decreased due to high interest rates and using computerized machinery that needs constant up-dating. ZPC uses harmful chemicals when preparing their cloths for production.

- 1.1 Quote THREE challenges for ZPC from the scenario above. [3]
- 1.2 Identify the PESTLE element that links to EACH challenge, as quoted in Question 1.1. [6]
- 1.3 Recommend ONE way in which ZPC can deal with EACH challenge, as identified in Question 1.1 [6]

Answer to activity 6

| CHALLENGES 1.1 | PESTLE ELEMENT 1.2 | RECOMMENDATIONS 1.3 |
|--|-----------------------|---|
| The profitability of the business has decreased/due to high interest rates.√ | Economic√√ | Pay off unnecessary debt.√√ Cut down on unnecessary spending.√√ |
| Computerized machinery used needs constant up-dating.√ | Technological √√ | Enter into a contract for up-dating the machinery.√√ Work out an up-dating programme.√√ Only run necessary up-dates.√√ |
| ZPC uses harmful chemicals when preparing their cloths for production.√ | Environmental √√ | Research availability and make use of less harmful chemicals.√√ Make changes to the process that would not require the use of these harmful chemicals.√√ |



Steps in strategy evaluation

- Examine the underlying basis of a business strategy.
- Formulate strategies to meet objectives favourably.
- Implement strategies using action plans.
- Look forward and backwards into the implementation process.
- Compare the expected performance with the actual performance.
- Measure business performance 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.



Activity 7

Outline the steps in evaluating a strategy.

(8)

Answer to activity

- Examine the underlying basis of a business strategy.√√
- Formulate strategies to meet objectives favourably.√√
- Implement strategies using action plans.√√
- Look forward and backwards into the implementation process.√√
- Compare the expected performance with the actual performance.√√
- Measure business performance 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.√√

