

LESSON 02: (continued)

Task: (10)

- Outline strategies that the government can implement to create a conducive environment in which businesses can operate.
- What are the benefits for achieving government goals?

Task: (11)

- For what does BEE stand?
- What are the main aims of BEE?
- HIV/AIDS
- What are the key principles of BEE?
- What are the duties of the BEE Advisory council?

LO / AS : 12.1.2

Devise strategies for how a business can respond to the challenges of the macro business environment, critically analyse strategies and make recommendations as required.

The learners are expected to:

- Develop strategies in response to challenges in the business environment.
- Discuss the different types of strategies.
- Evaluate these strategies and make a recommendation for their improvement.



2. STRATEGIES IN RESPONSE TO CHALLENGES IN THE BUSINESS ENVIRONMENTS

2.1 SWOT Analysis:

- One of the best known techniques for doing an environmental analysis is SWOT analysis.
- SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats.
- The objective of a good strategy will be to increase the strengths and optimise the opportunities, and decrease the impact of internal weaknesses and external threats.
- A strength is a resource that the business has which is an advantage over its competitors e.g. financial reserves, a quality product etc.
- A weakness refers to the lack of a resource that represents a disadvantage to a business in relation to its competitors e.g. limited financial reserves, poor marketing skills, etc.
- An opportunity refers to a favourable situation in the external environment of the business e.g. interest rate decrease
- A threat refers to an unfavourable situation in the external environment of the business e.g. hike in interest rates.

Task: (12)

- For what does the acronym SWOT stand for?
- What are the weaknesses of SWOT analysis?

c. Case Study:

Mall Stores is a chain store that sells clothing for cash and has some 450 branches throughout South Africa. Since it sells goods for cash it has a healthy cash flow. The recent interest rate hikes and rise in inflation rates created a problem for this enterprise. Consumers are likely to spend less on clothing and the savings are thus spent on food since clothing does not experience the same high inflation as food.

Examine the above case study and identify a strength and a threat for Mall Stores.

2.2 Types of Business Strategies:

2.2.1 Integration Strategies

- Vertical Integration: occurs when a business takes over its suppliers or it takes over businesses that buy from it.

* **Backward Integration:** Taking ownership of the suppliers of the business.

* **Forward Integration:** Taking ownership of distributors or retailers.

- Horizontal Integration: Is a long-term growth strategy in which similar businesses are taken over. This strategy can be used to get rid of competitors or to gain new markets.

2.2.2 Intensive Strategies:

- Market Development: Involves developing existing markets for present products of the business or creating new markets for existing products.
- Product Development: This involves improving or modifying the products and services of the business so that sales can be increased e.g. introduction of Coke Lite by Coca Cola for people who preferred a light cool drink.
- Market Penetration: This refers to increasing the market share through concentrated marketing efforts. The business focuses on the present products and services.

2.2.3 Diversification Strategies:

- Concentric Diversification: refers to adding new or related products to the product line of the business. The purpose of this form of diversification is usually to expand the market share of the enterprise in the same market or to enter new markets.
- Conglomerate Diversification: This involves adding new but unrelated products in order to reach and penetrate new markets. The purpose of diversification is to distribute risk, achieve a more rapid growth rate or obtain higher profits.

2.2.4 Defensive Strategies:

- Retrenchment: A business may find itself in a position where its profits are declining for a wide range of reasons e.g. drop in sales. A turnaround strategy is employed

- to break the downward spiral of sales and profits. The focus is to reduce costs.
- Divestiture: This refers to selling off parts of a business in order that it fulfils its mission.
 - Liquidation: This entails selling all the assets of an business in order to avoid bankruptcy. It is a planned and orderly way of converting assets into cash in order to reduce the losses for the owners of the business.

2.2.5 Other Strategies:

The company repositions itself by:

- replacing one or more individuals
- revising a business mission
- establishing or revising objectives
- devising new policies
- issuing stock to raise capital
- adding more sales persons
- allocating resources differently
- developing new performance incentives

Task: (13)

Classify the following as either internal or external growth strategies :

- product development
- concentric diversification
- forward integration
- conglomerate diversification
- backward integration
- production development
- innovation

Task: (14)

Name four kinds of decline strategies.

Task: (15)

Name two forms of corporate combination strategies.

Task: (16)

Identify the specific type of strategy illustrated by each of the following:

- a shoe manufacturer buying off a retail outlet that sells shoes
- a retail outlet that buys out a supplier
- a cool drink company venturing into the music industry
- a cellphone company that embarks on intensive advertising through various media as a growth strategy
- a company owning a string of supermarkets takes over other supermarkets

Task: (17)

A company has been enduring declining profits, declining sales, poor management and ineffective production.

- Name the three defensive strategies that it can employ.
- Which strategy should this company employ? Explain.

Task: (18)

Give five reasons why a business will diversify.

LESSON: 03 BUSINESS ENVIRONMENT

LO 1 AS 5

Select a business from each sector and describe the three environments related to these sectors and the extent to which a business can control these environments.

1. SECTORS OF THE ECONOMY

1.1 Primary Sector:

Involves in the production of raw materials from natural resources. It consists of mining, forestry, fishing, agriculture, etc. The main factor that will affect this sector is climate e.g. drought, floods, etc. It must however be noted that some factors can be partially or totally controlled.

1.2 Secondary Sector:

Involves the processing of raw materials into semi-finished or finished goods e.g. a sugar mill that converts sugar cane into sugar. The sugar can be used as a final product by a consumer or it can be regarded as a semi-finished product by a business that uses it to make sweets.

1.3 Tertiary Sector:

Businesses in this sector are involved in the provision of services e.g. retailing, banking, insurance, etc.

2. BUSINESS ENVIRONMENTS

There are three business environments namely; micro-environment; market environment and macro-environment. Let us examine some of the factors that affect each of these environments

2.1 Micro-Environment:

- mission statement
- management systems
- trade unions
- resources
- available capital
- production factors

2.2 Market Environment :

- consumers
- competitors
- suppliers
- intermediaries

2.3 Macro-Environment:

We have already dealt with this. See if you could list a few factors, with examples, that affect this environment.

(to be continued)

