

BUSINESS STRATEGIES – MEMORANDUM

1. The strategic management process:

- Determine a vision and mission or adapt the existing ones by asking what the business wants to achieve.
- Set long-term goals that will enable the business to achieve its mission and vision.
- The owner has to analyse the external and internal environments of the business through environmental scanning.
- The owner can use different industrial tools such as the SWOT analysis (micro environment), Porters Five Forces (market environment) and PESTLE (macro environment).
- Generate several strategies to address all strategic issues in the business environment.
- Choose the best possible strategy that will resolve the strategic issue at hand.
- Implement the selected strategy and communicate it to all stakeholders.
- Continuously evaluate, monitor and measure strategies in order to take corrective action.

2. The evaluation process:

- Examine the underlying basis of a business strategy.
- Look forward and backwards into the implementation process.
- Compare the expected performance with the actual performance.
- Measure the business performance in order to determine the reason for the deviations and analyse these reasons.
- Take corrective action so that deviations may be corrected.
- Set specific dates for control and follow up.
- Analyse actions that could be implemented to prevent similar defects in the future.

3.1 SWOT analysis of Dave Digital Sound DDS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • DDS employs qualified sound engineers. • DDS specialises in selling radios and car sound systems. 	<ul style="list-style-type: none"> • The business does not have sufficient capital to buy/sell sound systems that cater for large events.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Businesses in the same industry are closing down due to ineffective marketing campaigns. 	<ul style="list-style-type: none"> • DDS is located in a high crime area.

3.2 Recommendations

The business does not have sufficient capital to buy/sell sound systems that cater for large events.	Borrow money from the bank Take in an additional partner / shareholder
DDS is located in a high crime area.	Have security gates Employ security guards to protect the business

4.1 STRENGTHS	WEAKNESSES
Megan sells traditional food at reasonable prices.	MAC uses an old cash register that does not always accurately record all cash transactions. Megan does not have a good marketing strategy to retain her customers.
OPPORTUNITIES	THREATS
The municipality has invited MAC to open a traditional food stall at the cultural market on weekends. The market attracts many tourists and local customers.	Suppliers have also increased their prices due to inflation. MAC is losing customers to Nozizwe Buy & Braai which sells pap and meat at very low prices.

4.2 Recommendations

MAC uses an old cash register that does not always accurately record all cash transactions.	Buy a new cash register
Megan does not have a good marketing strategy to retain her customers.	Employ a marketing person to help develop a good marketing strategy
Suppliers have also increased their prices due to inflation.	
MAC is losing customers to Nozizwe Buy & Braai which sells pap and meat at very low prices.	Offer a quality product / Offer something extra to the pap and meat

5. Political, economic, social, technological, legal, environment

6. **Economic:** Inflation or Interest rates may negatively impact on business.
Loans may be expensive due to high interest rates.
Fluctuations in foreign currency may restrict import.
- 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.

- 7.1 social
- 7.2 environment
- 7.3 technological
- 7.4 economic

- 8.1 Threat of substitution
- 8.2 Power of buyers
- 8.3 Threat of new entry
- 8.4 Power of suppliers
- 8.5 Competitive rivalry

9. Application of Porters Five Forces

POWER OF SUPPLIERS

Assess the power of the suppliers in influencing prices

Suppliers that deliver high quality product may have power over the business.

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.

Identify the kind of power suppliers' have in terms of the quality of products, services, reliability and the ability to make prompt deliveries.

POWER OF BUYERS

Buyers buying in bulk can bargain for prices in their favour

The entrepreneurs must assess how easy it is for their buyers to drive prices down.

A few powerful buyers are often able to dictate their terms to the business.

Entrepreneurs should do market research in order to get more information about their buyers.

It will depend on the number of buyers, the importance of each buyer to their business and the cost of switching to someone else's products.

If the buyers can do without the entrepreneur's products they will have more power to determine prices and the terms of sales.

THREAT OF ENTRY

If barriers to enter are low it will be easy for new businesses to enter the market.

If there are a few suppliers of a product or service but many buyers, it may be easy to enter the market.

New competitors can easily enter the market, if it takes little time and money to enter the market.

If the existing entrepreneurs business is highly profitable it will attract potential competitors that want to benefit from high profits.

COMPETITIVE RIVALRY

If the entrepreneur's competitors have a unique product then they have greater power.

If the entrepreneur has many competitors in the same market then his business has very little power in the market they operate.

The entrepreneur should draw up a competitor's profile of each similar business in the area so that they can determine their own strength as well as the strength of competitors.

Some businesses have the necessary resources to start price wars and continue selling at a loss until some or all the competitors leave the market.

.THREAT OF SUBSTITUTE

If the entrepreneur's product can easily be substituted it weakens the power of the entrepreneur's business in the market.

Establish whether the sellers of substitute products have improved their product or sell lower quality goods at lower prices.

If the business sells unique products it will not be threatened by substitute products.

Assess if customers are using substitute products/services and determine reasons for using substitutes.

10. SWOT analysis – Many workers are late for work.
Porters' five forces – The new Dawn Hotel charges lower prices for similar services.
Pestle – The Royal Star Hotel is located in an area where the unemployment rate is high.

11. 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** or modifies an existing product.
- Businesses generate new ideas and develop new products or services

12. 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 other businesses in the same industry, which produce or sell the same goods or services.
- The aim is to reduce the threat of competition or substitute products or services.

13. Advantages of intensive strategies

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

14. 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 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 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 customers**.
- Occurs when a business wants to increase its product range and markets.
- Conglomerate diversification means that a business grows into new products, services and markets

15. Defensive strategies**Divestiture / Divestment**

- The business **sells some assets or divisions** that are no longer profitable.
- Businesses may sell off divisions or 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 or closing certain departments may result in some workers becoming redundant.

Liquidation

- **All assets are sold** to pay creditors due to a lack of capital or lack of 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.

Conglomerate diversification

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

15. Defensive strategies**Divestiture / Divestment**

- The business **sells some assets or divisions** that are no longer profitable.
- Businesses may sell off divisions or 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 or closing certain departments may result in some workers becoming redundant.

Liquidation

- **All assets are sold** to pay creditors due to a lack of capital or lack of 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.