

Chapter 1: Business Environments

It is important to understand the environment where the business operates. We will look at the macro environment, the market environment (both external) and the micro environment (internal).

1. The Macro Environment

Both the macro and market environments form part of the external environment. The business has no control over events taking place in the external environment, but it needs to consider these events and must design strategies (plans of action) to adapt to situations in the external environment.

Nevertheless, it is also important to keep in mind that the events occurring within the business (internal environment / micro environment) may in turn impact on events in the macro environment, as illustrated by the following examples:

- In the event of a strike, an individual business or group of businesses (industry) may have an effect on the economy.
- A business employing or retrenching workers contributes to the employment/unemployment rate of the country.
- The way the business operates may directly influence the physical environment in which it operates, etc.

Various tools may be used to analyse the events in the macro environment in order to:

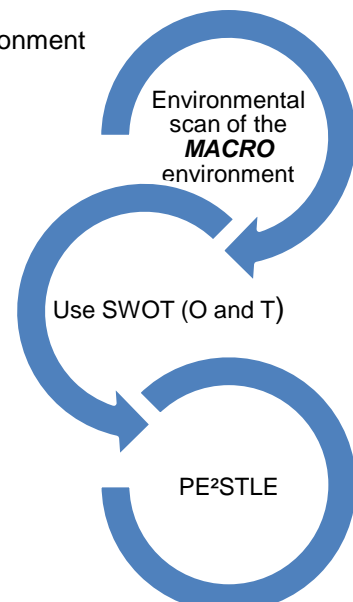
- determine how the business should react to **eliminate any threats**
- **capitalise on opportunities** to achieve a competitive advantage

Important terminology:

Competitive advantage: This describes how the business has the edge in the market or over competitors (local or international). If the business has a competitive advantage, it enables the business to exploit this advantage to sell more, to attract more customers or to reduce expenses, thus generating more profit.

Some of the tools that may be used to analyse the macro environment include:

- an environmental scan
- a SWOT-analysis, and
- a PESTLE analysis or more accurately, a PE²STLE analysis.



1.1 An Environmental Scan

It is important to do an environmental scan to identify factors that may impact on the business and then adjust existing plans or develop new plans to deal with these factors / events.

An environmental scan is not limited only to the macro environment, but can be used as a tool when looking at the market environment and the micro environment as well. However, when an environmental scan is used in the macro environment, the following process is applied:

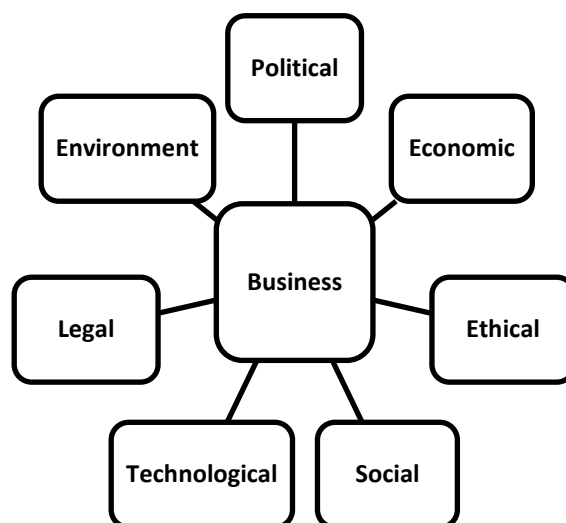
- The business will scan (look at) the macro environments in order to identify issues which need to be addressed.
- Although a SWOT analysis may be used to evaluate factors in both the external and internal environments, in the **macro environment**, only **OPPORTUNITIES and THREATS** are considered.
- **PE²STLE** is a useful tool to identify specific opportunities and threats in the **macro environment**.

1.2 A SWOT-analysis (Only O and T)

The O (opportunities) and T (threats) refer to issues in the macro and/or market environments. In the macro environment the exchange rate may deteriorate and if raw materials are imported, it may threaten the profitability of the business. A fuller discussion about SWOT will follow in Chapter 2, featuring Creative Thinking and Problem Solving Techniques.

1.3 A PE²STLE-analysis:

Each of the letters in PE²STLE represents a factor in the macro environment that could potentially **threaten** the business or that the business may use as an **opportunity** to create or strengthen the competitive advantage. Note to which **word** each letter of the PE²STLE refers, but be mindful of how the terms are connected and inter-related:



1.3.1 Political factors

This factor is important in relation to:

- The local political situation of the country in which the business operates
- The political situation of other countries in which the business may operate
- But also including world politics in general

Political factors and LEGAL factors (discussed below) are closely related, as the political party running the country, will make the laws (legislation) that determine what is acceptable and what is not allowed, for example:

In South Africa the political changes that occurred after 1994 (first democratic election) resulted in a new Constitution that prohibits previous political policy such as Apartheid. The new ruling party (political party) also introduced laws such as *Broad Based Black Economic Empowerment (BBBEE)* to redress inequalities of the past (refer to Chapter 4).

Important terminology:

The Constitution forms the basis of all other laws in the country and both private citizens and businesses have to abide by this law. Some of the basic issues covered by the Constitution include:

- *The Bill of Rights (basic human rights such as freedom of speech, freedom of association, freedom of religion, the right to education, water, health, housing, inclusivity, i.e. no discrimination, and protecting the environment)*
- *Public administration*
- *Provincial governance*
- *Local governance (municipalities)*

When one reviews the political factors that may impact on the business, the following aspects should be considered:

- The likelihood of Government interference in the economic functioning of the country (and therefore, the running of businesses), as with a free market vs. socialism vs. communism
- The degree of political stability in the country and its impact on business confidence
- Political ties with other countries as this may, for instance, influence trade agreements
- Degree of media freedom / freedom of speech which may be used to criticise the political parties in the country when government officials make themselves guilty of corruption
- The attitude of different political parties in the country where business is conducted is important. The local banking and mining sectors, for example, may want to take note of a political party such as the Economic Freedom Front (EFF) that is in favour of nationalising banks and mines. Even though the ruling party does not support this view, it is good to

consider the points of view of opposing political parties as this may (or may not) shape the future political orientation of the country.

- The process followed when Government tenders are allocated (if the business is interested in tendering for Government contracts)

1.3.2 Economic factors

Economic factors that may affect the business and which ought to be analysed to assess what the implications may be - include:

- Economic growth and development rates in the country, i.e. the improvement (or deterioration) of the standard of living of the people of the country
- Inflation rates: Inflation is the continuous and significant increase in the general price level of goods and services. The higher the inflation rate, the lower the purchasing power of the monetary unit will be.
- Interest rates: the rate at which people or businesses borrow money from the bank or the percentage return on investment when saving money in the bank. High interest rates make it difficult for businesses to borrow money to expand.
- Exchange rates, i.e. the strength of the local currency vs. the currencies of other countries
- High unemployment rates mean people do not have money and as a result businesses suffer lower profits.
- Taxes such as income tax, VAT, import duties, etc.

1.3.3 Ethical factors

Ethics refers to the principles and/or values that will determine if decisions and actions are acceptable. Ethics provide a guideline for the person / business to evaluate how to act in the "right" way when faced with a moral dilemma or difficult situation. Also refer to Chapter 6 where Business Ethics is discussed in more detail.

Elements that the business has to consider when looking at Ethics as part of a PE²STLE-analysis include:

- What is the difference between **ethical** and **legal**? Something may be legal, but not ethical in a particular situation. A person's or business' set of principles may be ethical, but it may not be legal in terms of a country's trade regulations.
- Fair Trade refers to respect and transparency in business dealings, acknowledging that one party will not attempt to exploit the other.
- Corporate Social Responsibility: It is the responsibility towards the shareholders to make a profit vs. the responsibility towards giving back to the community (refer to Chapter 6).
- An employee's privacy regarding the use of the internet vs. the rights of the business to expect responsible behaviour from employees. Employers must be able to access computers to ensure employees are not contravening the company's regulations.

1.3.4 Social / Socio-Economic factors

Socio-economic factors refer to the impact that social trends have on the economy and the role players in the economy, such as businesses and consumers' behaviour and their lifestyles.

The business has to adapt to changes in social trends. Think about the impact that social media has on the world around you and how businesses have to adapt their marketing and sales tactics to utilise opportunities related to the use of mobile devices.

Apart from social media, other factors for the business to consider in this regard include:

- The average age of the population, the life expectancy and people becoming more health conscious
- The number of single parents providing for a family
- HIV / Aids infection and diseases such as TB and malaria
- Levels of literacy / education
- Unemployment rates
- Personal safety and crime
- Awareness of the issue of pollution and recycling (also refer to Environmental factors)
- Distribution of wealth / poverty
- The changing role of women in society in certain cultures

Activity 1:

Each of these factors will have a greater or lesser impact on different businesses. Think about the business that comprises your case study this year; discuss in class which of the above (or factors not listed) may impact on the business and the appropriate responses required by the business. Once you have done the section on Corporate Social Responsibility (Chapter 6), you should be able to add more detail to your assessment.

1.3.5 Technological factors

Technology refers to the equipment the business uses to buy (or make), advertise or sell the products or services.

Think how the following factors impact on the business that you use as your case study this year:

- We have already referred to the rapid development of issues surrounding social media.
- Automation of different processes, requiring less use of lower-skilled and cheaper manual labour
- Advances in online money transfers (internet banking, electronic fund transfers)
- Online shopping
- Quicker sales transactions through EPOSSE (Electronic Point of Sales Scanning Equipment as opposed to manual pricing) at pay points
- Product innovation through Research and Development (R & D)

1.3.6 Legal environment

The legal environment refers to all laws that impact on the business. This may include:

- Labour legislation (refer to Chapter 4) such as the *Labour Relations Act*, the *Basic Conditions of Employment Act*, *Broad Based Black Economic Empowerment*, skills development and the *Occupational Health and Safety Act*
- Legislation introduced to protect the consumer (refer to Chapter 7) and consider the *Consumer Protection Act* and the *Credit Act*. Scrutinize information displayed on labels designed to inform and protect consumers.
- Laws that protect the environment against exploitation and pollution
- Criminal justice that protects the business against piracy and rip-offs
- Laws relating to paying tax, registering the business, health and safety and specifications for dealing with food (to name but a few)

1.3.7 Physical environment and other Environmental factors

- Environmental factors are important if one thinks of the growing awareness to protect the environment and to prevent negative consequences such as global warming and changes in weather patterns.
- Think about the general move towards more environmentally friendly products, the emphasis placed on recycling, hybrid cars, higher taxes on air travel and efforts to reduce the carbon footprint.

Here follows a short sample of a PESTLE analysis for Dischem:

Political Factors and Strategies requiring a response
Economic system: South Africa has a mixed market economy meaning a free market system, with some government involvement in the economy. New competitors are able to enter the market at any stage. Awareness of potential and current competitors, minimising the influence of competitors by creating and maintaining a competitive advantage through lower costs; better marketing, lower prices and better quality; more motivated and efficient employees, and quicker checkout procedures, etc. are crucial to sustaining business growth.
Political stability: Political unrest often occurs because of the lack of service delivery. Although there is seldom an immediate threat of a new government and thus new legislation, essential services must function efficiently. People who cannot get their medicines at government hospitals may be targeted as customers by Dischem, providing an agreement can be negotiated with the government.
Government corruption: There has been much focus on corruption regarding tenders. Dischem may want to tender for a government contract; if Dischem refuses to act in an unethical manner (paying a kick back), the Company may lose the tender. What would the correct action be in such a case?
Refugees: Many refugees arrive from neighbouring countries. In border towns there may be a higher risk of certain diseases, as refugees may be ill with contagious illnesses. Dischem needs to be aware of this and stock sufficient supplies of the appropriate medicines in these areas.

Economic Factors and Strategies requiring a response

Economic development: South Africa is experiencing negligible economic development. As a consequence, most people barely maintain their standard of living or have been reduced to a much lower standard of living. Dischem needs to source alternative medicines / generic products at lower costs to service customers' needs.

Interest rate increases may influence the consumer to think twice about buying more luxury products especially if they have less disposable income. Dischem may be forced to reconsider its product mix and even decrease stock of luxury items.

Exchange rates: These rates impact on imports. If the exchange rate depreciates (the Rand becomes weaker), it becomes more expensive to import products. Dischem may have to consider suppliers in countries with more favourable exchange rates to import products, providing they are safe and of a good quality!

Load shedding: The potential impact of load shedding on its numerous branches is a key factor for Dischem to consider. Till points may not operate, but more crucially, the unavailability of electricity may cause certain medicines requiring refrigeration to fail. Dischem will probably need to invest in generators for their stores.

Social (and Cultural) Factors and Strategies requiring a response

CSR and Corporate Governance are featuring more prominently in the media. Consumers have certain expectations of retailers such as Dischem and the business should use its marketing campaigns to inform consumers of CSR initiatives and good Corporate Governance practices.

Demographics: In 2013 it was estimated that close to 30% of South Africa's population is younger than 15 years, while about 8% was older than 60 years.
(<http://beta2.statssa.gov.za/publications/P0302/P03022013.pdf>) These are important issues for Dischem to note, as age distribution (among other factors) will have an impact on the type of products consumers will demand.

Awareness of **health issues:** Dischem also sells certain food supplements and organic foods. The Company should be aware of the growing consumer trend to be healthy as this offers opportunities to add more of these products to their existing product ranges.

Diseases like **AIDS, TB:** These diseases are serious social issues; and Dischem, owing to the nature of its business, has the potential capacity to contribute to the control of these diseases. As part of the Company's CSR it may prove advantageous to engage in a programme to promote safer sex by distributing free condoms. Dischem may also elect to sponsor educational programs to increase people's awareness of the symptoms and management of TB.

Technology and Strategies requiring a response
<p>Procurement process: Technological advancements have made systems like JIT (Just in Time) a reality and means businesses can reduce stockholding costs. For Dischem, it contributes to cost saving benefits: less space required, lower insurance costs, and fewer employees working in a large warehouse where large volumes of stock are kept. And lower costs will improve the performance of the business.</p>
<p>Used in the sales process: EPOSSE (Electronic point of sale scanning equipment – i.e. tills where products are scanned) has made the payment process faster. This, however, is no longer a competitive advantage, as almost all businesses already use this system. Dischem may want to focus more on internet buying (of non-prescription medicines) to enable customers to order products online, with the added benefit of home delivery.</p>
<p>Self-check-out machine: Radio Frequency Identification (RFID) tags may be attached to products and instead of EPOSSE, the cashier at the till need not scan each product individually. The trolley is pushed through a scanner system where all items in the trolley are scanned simultaneously. The customer either pays cash, or he/she can swipe a payment card and do a “self-check-out”. Think how this will reduce time queuing to pay...</p>
<p>Electronic shelf labelling: This is probably the future of bar codes on shelves. Instead of manual bar codes being placed on shelves (sometimes incorrectly); in future, this may be done electronically to reduce the workload of having to print paper bar codes, with the benefit of being more environmentally friendly as well.</p>
Legislation and Strategies requiring a response
<p>The CPA has very specific requirements and prescriptions when it comes to how products and services are marketed to consumers. Dischem should take note of these requirements and, for example, not spam consumers with information via email or cell phones.</p>
<p>If Dischem becomes aware of a supplier having been found guilty of price fixing (as was the case in 2008), Dischem has a responsibility to assess whether it is ethical to continue supporting this supplier. What, for instance, should be the policy if one company alone sells a particular medicine/ingredient that is in great demand by consumers?</p>
<p>Competition board for mergers: Dischem is one of the largest role players in this industry and should it at any stage consider a possible merger to reduce competition, the Competition Board of South Africa may not view this in a favourable light.</p>
<p>New legislation: Dischem needs to take note of the proposed New National Health Plan for South African as it will have a direct impact on future sales.</p>
Environmental factors and Strategies requiring a response
<p>Dischem should not only aim to meet legislative requirements when it comes to environmental issues, but should do more than what is legally required to reduce its carbon footprint.</p>
<p>Although Dischem is not involved in the manufacturing process, the Company buys from suppliers</p>

that manufacture certain products. The goal should be to support those suppliers that limit their pollution or damage to the environment during the manufacturing process.

Recycling requires utilising sustainable consumption to reduce waste. Plastic contributes greatly to wastage; Dischem should only use recycled plastic in the manufacturing of its plastic shopping bags.

Sustainable energy entails the use of solar panels. It is important that customers experience a well-lit and clean shop. For Dischem, this means that electricity consumption will probably form a large portion of its operating expenses. To reduce energy use, clean energy options such as solar panels may be installed. This may also eliminate any impact from a risk factor such as load shedding.

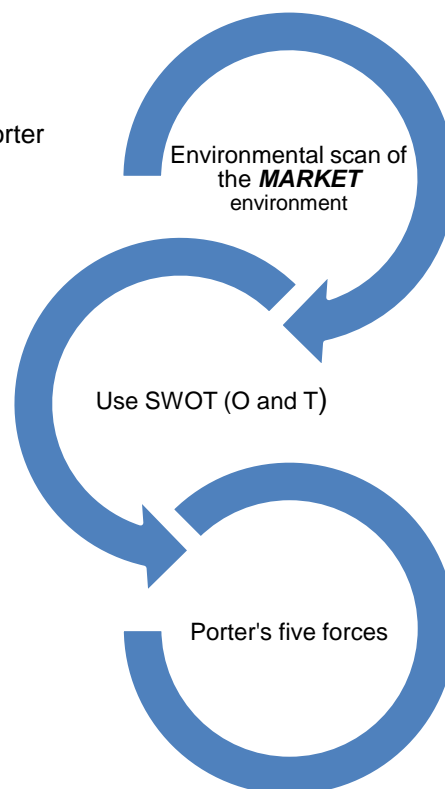
Activity 2:

- Now that you have seen the example of the PESTLE analysis above, try to complete your own PESTLE analysis for a business in a different sector.
- Remember to provide full strategies, to overcome challenges identified.

2. The Market Environment:

The Market (environment) is any place (physical or electronic) where goods and services are bought and sold. A variety of tools can be used to investigate forces in the market environment, which may include:

- An environmental scan
- A SWOT-analysis (O and T only)
- The use of the five forces as identified by Porter



When an environmental scan is used in the market environment, the following process ensures:

- The business scans (looks at) the market environment in order to identify issues that need to be addressed.
- Although a SWOT analysis can be used to consider factors in both the external and internal environments, in the **market environment**, only the **OPPORTUNITIES and THREATS** will be considered.
- **Porter's Five Forces Model** is a useful tool to identify specific opportunities and threats in the **market environment**.

2.1 Porter's Five Forces Model

Michael Porter's model is a popular and an easy to understand tool often used to analyse the Market environment. Porter's Five Forces model investigates the following in the Market environment:

- Competitors: which businesses sell the same product
- Competitors: which businesses sell a similar product
- Competitors: which businesses may try to enter the market in the future
- Suppliers of the products
- Buyers that must be convinced to spend their limited money to buy the product or service

To understand how Michael Porter himself explains these five forces (2.1.1 – 2.1.5) view the video on www.youtube.com/watch?v=mYF2_FBCvXw

2.1.1 Level of rivalry (current competitors)

It is important for any business to know what competitors are doing. If one can find a sector where a competitor is not performing well, it may present an opportunity for the business to make more profit. By identifying the areas where competitors are achieving success, it may be an indicator of a threat to the business, requiring the implementation of a tactic to avoid losses. For example, if a competitor has a superior marketing strategy; it poses a threat to one's business because customers may be lost to the competitor.

When the business is compared with one's competitors, the following factors require reviewing:

- Size and financial resources of the business
- Market share
- The quality of products / service
- Consumer brand loyalty
- Pricing of products or service
- Convenience of location and distribution channels
- Trading hours

The business needs to develop strategies to improve and outperform competitors in the above mentioned factors, as competitors have the power to "lure away" customers and thus profits.

Examples of such strategies:

- Customer loyalty programs may be introduced to make the business more attractive than those of competitors.
- A business reduces the price of certain products / services to make sure the business is a more attractive option than the competitors.

Important terminology:

Strategies can either be a formal business plan to achieve a long or short-term goal (refer to Chapter 2 for a variety of strategies), or it can simply be a plan of action, implemented to improve the overall performance of the business.

2.1.2 Threat of new entrants

Not only current competitors “steal” customers, there may be a challenge from a new business that sees an opportunity to make money by entering the market.

An existing business will see any potential new business as a threat to its market share and profits. The business therefore, tries to build “barriers” (strategies) to prevent new businesses from entering the market successfully.

Examples of barriers to keep new entrants out of the market:

- The bigger retailers in shopping malls will, for example, negotiate with centre management to prevent too many competitors from acquiring space in the same centre.
- A business may also register a patent to deter a potential new business from selling a similar product.
- Large sums of money may be spent on advertising and having promotions where products or services are sold at a lower price, making it difficult for a new business to enter the market.
- Consider that even the government puts legislation in place to make it difficult for new businesses to supply electricity to consumers.
- A tax on imported goods is a deterrent the government imposes on certain industries to protect the local market from cheap, mass-produced goods from overseas.

2.1.3 Availability of substitute products

A substitute product does **NOT** refer to a different brand. This issue of different brands has been discussed under the heading of Rivalry / Competitors in the market.

To illustrate different brands:

- Simba chips and Willards chips
- Pick n Pay and Checkers
- BMW and Toyota
- Samsung and Blackberry mobile phones

A substitute product is a different product that satisfies the same need, namely:

- Butter vs. margarine
- Glasses vs. contact lenses
- Sugar vs. artificial sweeteners
- Restaurants vs. fast foods

Suppose a business manufactures margarine. In order to ensure the business is successful, it not only needs to consider the strategies other margarine manufactures implement (e.g. their prices, products packaging, the retailers selling the products to consumers, etc.); it also has to consider what butter manufacturers are doing, as people may be willing to substitute margarine with butter, if it seems to be a better option.

Increasing availability of substitute products generates more “indirect competitors” which a business must consider in order, to outperform the competition.

2.1.4 The power of suppliers

Any business that does not have a reliable supplier is certain to encounter problems more often than not.

In order to be successful, the business depends on the supplier to provide a good quality product when needed (timing) and to deliver the correct quantity to the place needed at a reasonable price.

- Imagine being a florist and your supplier delivers 30 dozen red roses after Valentine's Day
- Or, if you got the tender to build a new school in Melville and your supplier delivers 100 000 bricks to Bellville
- Or, your school is in charge of organising a large athletics meeting in the middle of summer and your supplier is unable to deliver additional water and cool drinks

Large suppliers, e.g. Amalgamated Beverage Industries (ABI – suppliers of Coke, Fanta, Sprite etc.), Cadburys, Simba, etc. - supply their products to a large number of wholesalers and retailers. It is important that the business keeps in mind that if the supplier sells to a competitor at a lower price or provides the stock to the competitor when there is limited stock (e.g. during a strike), that your business will be in a weaker competitive position and consequently less successful. Consequently, it is critical that the business develops and maintains good relationships with suppliers.

The following are possible costs associated with the unavailability of stock:

- If there is no material, a manufacturer cannot produce (no sales = no profit).
- If there is no material, the machines and labour cannot be utilised to their full capacity, because the production or selling process will grind to a halt.

- Administrative and opportunity costs are incurred when dealing with a stockout. If a business has run out of stock, it becomes very difficult to negotiate discounts when placing orders.
- Customer goodwill may be lost if they have to go to competitors.

For this reason it is important to build strong and long-term relationships with suppliers, as the success of the business to a large extent, is determined by the suppliers of the products.

2.1.5 The power of buyers

The buyer may be a wholesaler ordering from a manufacturer, or a retailer buying the products for his shop or even the consumer who has to spend his or her hard earned money at your business. If the buyers are not respected, and offered good value for money, they may decide to support a different business.

When a retailer sells to the final consumer, the following aspects may need some consideration:

- What type of product / service is being offered? A consumer, for example, may be prepared to travel a greater distance to buy speciality goods such as cars, jewellery and expensive household appliances in order to get exactly what he/she wants; convenience goods (such as groceries) and select goods (such as clothes) do not justify travelling longer distances, and the consumer may be happy to settle for a different brand or a substitute product.
- Is the consumer brand-loyal, or is the consumer prepared to swop brands if he/she can get a better deal? Do consumers consider shopping at Dischem for toys, or is only Toys R US “good enough” when buying toys for the kids?
- Price sensitivity – in some instances buyers may be happy to pay more for a product or service if it is delivered, has a guarantee or is conveniently available etc.
- “Snob-value” or the image associated with the product or service often may influence where the consumer makes the purchase. Some consumers do not fly with a low cost airline as a meal is excluded from the airfare. And, imagine if your fiancé gives you a beautiful ring when you get engaged, but you subsequently discover he purchased it at the pawn shop! Obviously, some low cost airlines are successful and many pawnshops do make a good profit. The business has to know who the target market is and then focus on this group of consumers to satisfy their needs.

Here follows a short example of a Porters Five Force Model for Pick n Pay:

Threat of New Entrants:

- Entry barriers are relatively high for the retail sector e.g., legal requirements such as the Companies Act, BCEA, OHSA (Occupational Health and Safety Act) and other contractual requirements, etc.
- We see an increasing number of new brands appearing in the market with similar prices, for example Wal-Mart.

Strategy: Pick n Pay is not only a retailer, but it has a strong brand presence within the South African

market. By offering a one-stop shopping experience it is making it convenient for customers (e.g. Banking, Computicket, clothing and pharmacy) to do their shopping at Pick n Pay. It has had a significant market share for a long time and has many loyal customers, in part due to its South African origins, but also, more recently, due to Smart Shopper card program. It is however very important that Pick n Pay keeps monitoring new competitors and the way in which they are entering the market place, e.g. Wal-mart taking over Mass-mart. It is important that Pick n Pay keeps the competitors' marketing strategies in mind, when conducting business.

Threat of Substitute Products:

- There are many different kinds of retailers offering similar products in the market place, e.g. smaller deli stores.

Strategy: Pick n Pay needs to be aware of the price and promotion strategies of its own brand's products in comparison to those of other brand names. Pick n Pay needs to ensure that their products/services are available at competitive prices where these substitute products are found, e.g. shopping centers.

The Bargaining Power of Buyers:

- Pick n Pay's individual buyers place high levels of pressure on the business to keep prices low and stock a variety of products when they buy their monthly or weekly groceries from them.
- Many large competitors, e.g. Woolworths and Shoprite-Checkers, also order large quantities of products from their suppliers which enables them to offer similar low prices, giving the consumer the option to bargain with Pick n Pay.

Strategy: Although these buyers are able to place pressure on Pick n Pay, this pressure is lessened due to the consumer brand loyalty programs where customer shop at Pick n Pay to collect points. Pick n Pay should still work on building a sound relationship with these customers, as they are dependent on these customers to purchase their products.

The Bargaining Power of Suppliers:

- Pick n Pay offers the consumer branded products (their own, e.g. Pick n Pay Choice and other named brands such as KOO, Kelloggs, etc.). Many of the well-known brand names are sold by competitors as well. The suppliers would prefer to sell products to retailers who purchase larger quantities at a time and the suppliers may even let smaller orders wait till larger orders have been filled, or they would offer lower unit prices to retailers who purchase larger quantities, enabling these retailers to sell the products cheaper.

Strategy: Pick n Pay has a large distribution channel through its chain stores, franchises and BP Express stores. Their distribution network is for example much larger than that of a competitor such as Woolworths. Pick n Pay thus has the capacity to purchase larger quantities and take advantage of lower unit prices. Pick n Pay should make sure they have a sound promotional strategy to make customers aware of their lower price per unit.

Rivalry amongst existing firms:

- Pick n Pay has many competitors in the market as they cater for a full range of LSM's, where some of their competitors only focus on a smaller segment. This makes Pick n Pay's environmental scanning more complex, as they need to be aware of a greater market.

Strategy: Pick n Pay needs to keep a watch-full eye on what their competitors are doing (expanding, marketing, etc.). Pick n Pay needs to ensure that their brand remain stronger than competitors, by delivering on their promises. They should remain a business that helps the community as this will help Pick n Pay to enjoy a stronger brand presence and brand association through the development of loyal customers.

Activity 3:

- Now that you have seen the example of the Porters Five Force analysis above, try to complete your own Porters Five Force analysis for a business in a different sector.

Remember to provide full strategies, to help your business maintain or create a sound competitive advantage for itself.

How do I do it in the exam?

Regardless of the type of business, any business will experience a variety of challenges from a dynamic and ever changing environment. Identify if the challenges below originate in the market or macro environment and then suggest and explain a separate strategy that management could implement for each of the following challenges:

1. *Makro (the business) must constantly make new cell phones available to consumers. 4*

Environment:

- *MACRO environment, because technology is changing and that is the reason why there is a change in demand for cell phones in the MARKET environment.*

Strategy:

- *The Purchasing manager needs to be up to date with the latest technology available. This can be done by maintaining good relationships with suppliers (market environment).*
- *As soon as new phones become available, the Marketing department needs to communicate with consumers to inform them about the new product and to make it attractive to them to buy the new phone.*

- 2 If there is an economic crisis in a country from where goods are imported, it can be seen as a challenge from the ... environment.
- | | | | |
|---|----------|---|-------|
| A | micro | B | macro |
| C | internal | D | local |
- 3 The management team of the business is investigating the probability that new environmental legislation will be passed and the potential impact that this will have on operations. Which one of the following techniques would be a handy tool to use during the investigation?
- | | | | |
|---|--------------------|---|----------------------------|
| A | Balanced Scorecard | B | Benchmarking |
| C | PESTLE | D | Porter's Five Forces model |
- 4 Which one of the following techniques would be used to analyse the micro-environment?
- | | | | |
|---|----------------------------|---|--------------|
| A | Porter's Five Forces Model | B | PESTLE |
| C | Resource Based Approach | D | Benchmarking |
- 5 When the retailer uses the ratio of Total assets : Total liabilities, it is a ... financial tool
- | | | | |
|---|---------------|---|-----------|
| A | gearing | B | liquidity |
| C | profitability | D | solvency |
- 6 A SWOT analysis was used and the retailer identified a threat. Which one ...