

Boohoo plc strategic management models and theories



**ASSIGN
BUSTER**

Assignment Title: Strategic management models and theories, in the context of Boohoo Plc, with evaluation of the extent to which these models might enable the organisation to achieve its goals.

Strategic management is the long-term continuous planning, monitoring, analysing, and assessment of all that is necessary for an organisation to meet its goals and objectives with sustainable competitive advantage.

Strategic management stands concerned with making decisions and implementing them to an organisation's future direction (Gupta, 2014). It is a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure it is continued success and make it secure from the surprises (Gluck, et al., 1980). The role of strategic management is to help the organisation achieve their organisational goals more effectively (Hoque, 2002). Strategic management can supply financial benefits to an organisation, as they can realign their strategies to the needs of the environment (Kaplan & Norton, 2000). While Strategic management can also prevent problems occurring as environmental forecasting and strategic planning are integral parts of strategic management, this enables organisations to anticipate problems and take timely action to prevent the problems occurring. Strategic management can even help increase an organisations competitive advantage, as it enables the organisation to make optimum use of its competencies and resources and keeps it on the right track (Gupta, 2014).

Although, strategic management also has its limitations, one factor is that strategic management is believed to be time consuming, as it requires long

<https://assignbuster.com/boohoo-plc-strategic-management-models-and-theories/>

term planning, effort, and cost. It also suffers from the lack of accuracy as it is not easy to forecast the distant future on environmental impact for the organisation (Wheelen & Hunger, 2011). There is also the possibility that strategic marketing can suffer from a lack of accuracy, as strategic management is based on forecasts of the future environment, which is exceedingly difficult. It can also be affected by the complex and dynamic environment, as it becomes increasingly difficult to forecast due to the growing complexity and accelerating rate of change (Gupta, 2014). Plus, there is the possibility that rigidity can set in, when strategies are chosen and implemented in a given set of internal and external environment. Over time people become accustomed to the strategic plans and can become inflexible in the event of an environment change (Wheelen & Hunger, 2011). An undertaking of research into two strategic models will be undertaken, looking at Generic Strategies and Porter's five forces.

To be able to give examples of these models in a real life setting Boohoo Plc will be used, as Boohoo Plc is a UK based online fast fashion retailer, founded in Manchester in 2006 by Mahmud Kamani and designer Carol Kane. Boohoo Plc, designs, sources, markets, and sells their own branded clothing, shoes, and accessories online via their website (Boohoo, 2018). The group also owns other brands such as PrettyLittleThing, Nasty Gal, and BoohooMan (Boohoo, 2019). Boohoo Plc's target audience is 16 to 30 year olds, in the UK and around the world. While their current vision is to be the leading e-commerce fashion market for their target audience. Operating in the clothing retailer sector which had revenue of 42.5 billion pounds in 2018 (Boohoo, 2018), this sector is highly competitive with the leading company being Next

Group Plc who have just a 7.2% market share (IBISworld, 2018). Boohoo Plc in the same period saw revenues of 374.1 million pounds, that is increasing rapidly year on year. While Boohoo Plc operates in such a highly competitive industry the need for competitive advantage is essential (Boohoo, 2018).

It is possible to get an understanding of Boohoo Plc's strengths, weaknesses, opportunities, and threats by undertaking a SWOT analysis. Firstly, looking at Boohoo Plc's strengths they are a low cost company with items starting from £2.00 for a top (Boohoo Plc, 2014), it is a popular organisation amongst its target audience, they are continuously growing their sales year on year, they also stay on top of current fashion trends, and have a good distribution system in place (Boohoo, 2018). They also have some weaknesses, such as that they only operate online, with no 'brick and mortar' stores, there is also the fact that not everyone chooses to purchase fast fashion products, there is also the affect only being able to purchase online has on consumers, for example being able to try the products before purchasing, or being able to purchase from a physical store as some individuals do not like purchasing online, there has also been rumours about underpaying their warehouse staff, while also being accused of using an illegal selling model (Boohoo Plc, 2019). Although, Boohoo Plc also have some opportunities, such as opening physical stores, diversifying their target audiences, to reach a wider demographic such as families, and the elderly. While also suffering threats, such as from other fast fashion organisations such as ASOS and Topshop, plus they also operate in a very competitive environment (Boohoo Plc, 2014).

The first strategy is the concept of Generic Strategies. Which is about competitive advantage (Sharp, 1991). Cost leadership is one of the clearest
<https://assignbuster.com/boohoo-plc-strategic-management-models-and-theories/>

of the three Generic Strategies. If an organisation sets out to become the low cost producer in its industry. The firm has a broad scope and serves many industry segments and may even operate in related industries (Porter, 2008). The sources of cost advantage are varied and depend on the structure of the industry, this may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials, and other factors (Barney, 1991). If an organisation intends on being a low-cost producer, it must find and exploit all sources of cost advantage (Porter, 2008). These low-cost producers typically sell a standard, or no-frills, product and place considerable emphasis on reaping scale or absolute cost advantages from all sources. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry provided it can command prices at or near the industry average (Barney, 1991).

The second Generic Strategy is differentiation. When an organisation seeks to be unique in an industry, they employ a differentiation strategy (Porter, 1989). To do this they select one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs (Porter, 2008). This differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors (Barney, 1991). The organisation must truly be unique at something or be perceived to be if it is to expect a premium price (Sharp, 1991). In contrast to cost leadership, however, there can be more than one successful differentiation strategy in an industry if there are a number of attributes that are widely valued by buyers (Porter, 2008).

The third Generic Strategy is focus. This strategy is different from the others because it rests on the choice of a narrow competitive scope within an industry (Datta, 2010). The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others (Porter, 2008). By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage even though it does not possess a competitive advantage overall. The focus strategy has two variants (Porter, 1989). In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment (Barney, 1991). Both variants of the focus strategy rest on differences between a focuser's target segments and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments (Sharp, 1991).

Looking at how Boohoo Plc implements Generic Strategies it is possible to see that they implement a cost focus model. They focus on low cost operations within their business. The average price per item is around 13 pounds which is significantly lower than the other online fashion retailers such as Asos, H&M, New Look or Zara. Their focus on cost can be seen when looking at the products that they sell with some of their cheapest items costing £2.00, while the most expensive item is a coat for £80.00 (Boohoo Plc, 2017). While their director Mahmud Kamani claims that their aim is to be the best price on fashion (Boohoo, 2019). The reason for applying the cost focus approach is due to their target audience being 16 to 30 year olds, where this demographic's average income is not high, hence the focus on

price (Boohoo, 2018). Boohoo Plc faces competition from a range of traditional bricks and mortar, multi-channel and pure-play online retailers in both the UK and in international markets. The Directors believe that Boohoo Plc has built a strong and differentiated competitive position in the UK market on the back of its clear focus on the latest on-trend fashions at value for money prices, and that this will be replicated in other markets as the brand develops internationally (Boohoo Plc, 2014).

Boohoo Plc recently faced allegations for exploiting their factory workers. With some wondering how an organisation such as Boohoo Plc can make a profit for a 5 pounds dresses and 2 pounds tops (BBC, 2018), which is significantly less than the minimum wage in the UK where they produce, package and distribute their products unlike their rivals such as Primark who moved their production to western countries such as Bangladesh and China (The Guardian, 2017). One issue with fast fashion retailers is their environmental impact as this industry is non sustainable and creates huge wastage every year (BBC, 2018). While Boohoo Plc state that they sustainable and have equality in the work environment (Boohoo Plc, 2019). But this could be classed as Greenwashing, which is when an organisation such as Boohoo Plc claim they are sustainable and environmentally friendly, but this is only done as a marketing gimmick. This is because low quality and cheaply priced items do not last long (Chang & Jai, 2015). Boohoo Plc believes that the demand for trendy clothing for young consumers is huge and aim to have any new fashion trend available on their website to order within a week.

The concept of Porter's competitive advantage has received criticism over the years, and academicians and people from industry feel that the way of business has changed and therefore the concept of differentiation and cost leadership no longer is applicable (Bashir & Verma, 2017). Porter (2008), argues that cost leadership and differentiation both offer an equally viable path to allow an organisation competitive success (Porter, 2008).

Nevertheless, a differentiation strategy based on superior quality compared to competition is more profitable than cost leadership strategy (Datta, 2010). Mintzberg (1988), argued that Porter's low-cost costs strategy is basically a differentiation strategy (Mintzberg, 1988). Research shows that differentiation and cost leadership can co-exist (Datta, 2010). However, Porter (2008), insists that each generic strategy requires a different culture and a totally different philosophy (Porter, 2008). Mintzberg (1988) suggests that Porter's cost leadership should be called " price differentiation" strategy because it relies on a price that is lower than that of the competition. He also says that business strategy has two dimensions: differentiation and scope (Mintzberg, 1988). The problem is that Porter's Generic Strategies are too broad (Datta, 2010).

Another theory that can lead to competitive advantage is Porter's Five Forces model. When looking at the five forces model it is important to note that the configuration of the forces differs dependent on the organisations industry (Goold, 1997). The strongest competitive force or forces determine the profitability of an industry and become the most important to strategy formulation. The most salient force, however, is not always obvious. The Five Forces model is widely used to analyse the industry structure of an

organisation as well as its corporate strategy (Porter, 1989). Porter (2008), identified five undeniable forces that play a part in shaping every market and industry in the world. These forces used to measure competition intensity, attractiveness, and profitability of an industry or market (Porter, 2008).

These forces are; competition in the industry, potential of new entrants into the industry, power of suppliers, power of customers, and threat of substitute products (Afuah & Utterback, 1997). Firstly, looking at competition in the industry, this force refers to the number of competitors within an industry and the ability they have to undercut the organisation (Porter, 1989). The larger the number of competitors, the less power the organisation has.

While, potential of new entrants into an industry, looks at how an organisations power is affected by the force of new entrants into its market (Afuah & Utterback, 1997). An industry with strong barriers to entry is an attractive feature for companies that allows them to charge higher prices and negotiate better terms (Ramamurti, 2009). The next force is power of suppliers, this force addresses how easily suppliers can drive up the cost of inputs. It is affected by the number of suppliers of key inputs of a good or service, the fewer the number of suppliers, and the more a company depends upon a supplier, the more power a supplier holds to drive up input costs and push for advantage in trade (Porter, 1989). The fourth force is power of customers, this specifically deals with the ability that customers have to drive prices down. It is affected by how many buyers or customers an organisation has, how significant each customer is, and how much it would cost a company to find new customers or markets for its output (Porter, 2008). Finally, threat of substitutes be this goods or services that

can be used instead of the organisations product or service pose a threat to <https://assignbuster.com/boohoo-plc-strategic-management-models-and-theories/>

the organisation. Organisations that produce goods or services for which there are no close substitutes will have more power to increase prices and lock in favourable terms (Afuah & Utterback, 1997).

Looking at how Boohoo Plc could use Porter's Five Forces model. It is possible to see that Boohoo Plc have huge competition in their industry. This competition is driven by price, location, customer service, product range and quality, branding and marketing. Price competition varies between markets. At the lower end of the market, discount retailers compete extensively on price, particularly with children's clothing (IBISworld, 2018). The importance of brand awareness is much lower here compared with higher ends of the market (Boohoo Plc, 2014). Retailers can benefit from heightened awareness through social media campaigns, celebrity endorsements and by targeting certain demographics through new product ranges. There is also a high possibility of potential new entrants into the industry, with the barriers to entry in the industry being low. Carving out a significant share in this market could be very difficult without substantial financial backing and relevant experience. While small competitors can develop niche positions by concentrating on a particular type of clothing or serving a particular type of customer (IBISworld, 2018). The rise of internet shopping means it is now easier for such operators to develop a customer base and expand their business. Boohoo Plc ensure that to prevent their suppliers driving up their input costs they have a selection of suppliers of which will supply no more than 10% of Boohoo Plc's products (Boohoo, 2018). Customers tend to want to buy the best offerings available by paying the minimum price as possible. This put pressure on Boohoo Plc's profitability in the long run (Boohoo Plc,

2017). Boohoo Plc protect themselves from this by having a large consumer base it ensures that it reduces the bargaining power of the customers, plus it allows them the opportunity to streamline its sales and production process (Boohoo Plc, 2019). Boohoo Plc are constantly launching new products to stay on top of the fashion industry, by doing this it also helps reduce the bargaining power of their customers. Boohoo Plc constantly are under threat of substitute products, to reduce this threat they are constantly innovating new designs that can only be obtained by the consumer by purchasing from Boohoo Plc, they also understand the core needs of their customers and cater to that need (Boohoo, 2018). By analysing all of Porter's five forces Boohoo Plc strategists can gain a complete picture of what impacts the profitability of the organization in the clothing retail industry, which will allow them to identify changes in the environment early and can swiftly adjust to exploit the emerging opportunity.

Porter's Five Forces framework has been regarded as being too static in circumstances when industry conditions were changing so rapidly (Stonehouse & Snowdon, 2007). The Five Forces model is relatively abstract and highly analytical (Grundy, 2006). Porter's Five Forces does have its limitations as it tends to over stress macro analysis, i. e. at the industry level, as opposed to the analysis of more specific product-market segments at a micro level (Stonehouse & Snowdon, 2007). Grundy (2006), argues that Porter's model was thus a valuable and workable concept but one that requires some significant practical drawbacks, unless of course the model was developed further (Grundy, 2006). The five competitive forces are interdependent with other strategic analysis tools, which deal with the

external environment and with each other, where the internal and external environment need to be analysed together (Karagiannopoulos, et al., 2005). Another limitation to the Five Forces model is that it fails to link directly to possible management action: for example, where companies have apparently low influence over any of the Five Forces (Grundy, 2006).

Seeing as strategic management is the long-term continuous planning, monitoring, analysing, and assessment of all that is necessary for an organisation to meet its goals and objectives with sustainable competitive advantage (Gupta, 2014). There is a need to determine whether the Generic Strategies and Porter's Five Forces model are theories when developing strategy within both Boohoo Plc, and more widely (Porter, 2008). As strategic management is concerned with making decisions and implementing them in regard to an organisation's future direction (Gupta, 2014). Firstly, looking at Generic Strategies it is feasible to consider that in the case of Boohoo Plc that the method of cost focus does benefit them, however the overall problem is that Porter's generic strategies are too broad and further development of this theory may need to be undertaken (Datta, 2010).

Moving onto Porter's five forces model, Boohoo Plc could analyse all of Porter's Five Forces and allow Boohoo Plc's strategists to gain a complete picture of what impacts the profitability of the organization in the clothing retail industry, which will allow them to identify changes in the environment early and adjust to exploit this emerging opportunity. While the Five Forces model is relatively abstract and highly analytical (Grundy, 2006). However, the Five Forces model is well designed to allow any organisation to analyse the industry structure of themselves as well as its corporate strategy (Porter,

1989). Overall, strategic management is important for organisations to gain a competitive advantage, while using the models discussed gives them the ability to analyse the environment of the industry and gain said competitive advantage.

References

- Afuah, A. & Utterback, J., 1997. Responding to structural industry changes: a technological evolution perspective. *Industrial and corporate change*, 6(1), pp. 183-202.
- Barney, J., 1991. Firm resources and sustained competitive advantage.. *Journal of management*, 17(1), pp. 99-120.
- Bashir, M. & Verma, R., 2017. Why business model innovation is the new competitive advantage.. *IUP Journal of Business Strategy*, 14(1), p. 7.
- BBC, 2018. *Fast fashion: 'How do you justify selling a £2 T-shirt?'*. [Online]
Available at: https://www.bbc.co.uk/news/amp/business-46358969?fbclid=IwAR2-9NsLINemvLWXzgFzk4rMLfOwYcrHh_c1G0ntFVLpz3-2uKXq6cAV8KQ
[Accessed 05 05 2019].
- Boohoo Plc, 2014. *Admission to AIM*. [Online]
Available at: http://www.boohooplc.com/~/_/media/Files/B/Boohoo/documents/prospectus/boohocom-plc-final-admission-document-5-march-2014.pdf?fbclid=IwAR2cMSjFqbBxw_FH5FcDI4MDSQmCCf6eDSmJXyq_9pXykNqr1BZ-

VtBwEeM

[Accessed 05 05 2019].

- Boohoo Plc, 2017. *About Us*. [Online]
Available at: http://www.boohooplc.com/about-us/group-overview.aspx?fbclid=IwAR29nkTc9Y5lLbcq1kHdty7fxoXO_Mx4tZUmleqDAsumabwWpbSGXbDNbgk
[Accessed 05 05 2019].
- Boohoo Plc, 2019. *Environment*. [Online]
Available at: <http://www.boohooplc.com/boohoo-social-responsibility/environment.aspx>
[Accessed 05 05 2019].
- Boohoo, 2018. *Annual Reports And Accounts 2018*. [Online]
Available at: http://www.boohooplc.com/~/_/media/Files/B/Boohoo/reports-and-presentations/4042-boohoo-randa-hyperlink.pdf
[Accessed 05 05 2019].
- Boohoo, 2019. *About Us*. [Online]
Available at: <https://www.boohoo.com/page/about-us.html>
[Accessed 05 05 2019].
- Chang, H. & Jai, T., 2015. Chang, H. J. and Jai, T. M., 2015. Is fast fashion sustainable? The effect of positioning strategies on consumers' attitudes and purchase intentions.. *Social Responsibility Journal*, 11(4), pp. 853-867.
- Datta, Y., 2010. A critique of Porter's cost leadership and differentiation strategies. *Chinese Business Review*, 9(4), p. 37.

- Gluck, F., Kaufman, S. & Walleck, A., 1980. Strategic management for competitive advantage. *Harvard business review*, 58(4), pp. 154-161.
- Goold, M., 1997. Institutional advantage: A way into strategic management in not-for-profit organizations. *Long Range Planning*, 30(2), pp. 291-293.
- Grundy, T., 2006. Rethinking and reinventing Michael Porter's five forces model. *Strategic Change*, Volume 15, pp. 213-229.
- Gupta, C. B., 2014. *Strategic Management (Text and Cases)*. New Delhi: S. Chand Publishing.
- Hoque, Z., 2002. *Strategic management accounting*. s. l.: Spiro press.
- IBISworld, 2018. *Industry at a Glance*. [Online] Available at: <http://clients1.ibisworld.co.uk/uos/idm/oclc.org/reports/uk/industry/ataglance.aspx?entid=3060> [Accessed 05 05 2019].
- Kaplan, R. S. & Norton, D. P., 2000. Having trouble with your strategy? Then map it.. *Harvard business review*, 78(5), pp. 167-176.
- Karagiannopoulos, G. D., Georgopoulos, N. & Nikolopoulos, K., 2005. Fathoming Porter's five forces model in the internet era.. *Info*, 7(6), pp. 66-76.
- Mintzberg, H., 1988. Generic Strategies: Toward a Comprehensive Framework. *Advances in Strategic Management*, 5(1), pp. 1-67.
- Porter, M., 1989. *How competitive forces shape strategy*. In *Readings in strategic management*. London: Palgrave.
- Porter, M., 2008. *Competitive advantage: Creating and sustaining superior performance*.. s. l.: Simon and Schuster.

- Ramamurti, R., 2009. What have we learned about emerging—market MNEs?. *Emerging multinationals in emerging markets*, p. 399.
- Sharp, B., 1991. Competitive marketing strategy: Porter revisited.. *Marketing Intelligence & Planning*, 9(1), pp. 4-10.
- Stonehouse, G. & Snowdon, B., 2007. Competitive advantage revisited: Michael Porter on strategy and competitiveness.. *Journal of Management Inquiry*, 16(3), pp. 256-273.
- The Guardian, 2017. *Textile firms paying UK workers £3 per hour, investigation finds*. [Online]
Available at: https://www.theguardian.com/society/2017/jan/23/textile-firms-paying-uk-workers-3-per-hour-investigation-finds?fbclid=IwAR11IxDI FowyaKd-T6BoyZ4v950TWv_ZkFdGtrb6G_DWB0m5wC1lq2LIOzo
[Accessed 05 05 2019].
- Wheelen, T. & Hunger, J., 2011. *Concepts in strategic management and business policy*. India: Pearson Education.