

J.m. smuckers external environmental analysis assignment

[Business](#), [Marketing](#)



MGT 599: Strategic Management TUI University Winter 2010 External Environmental Analysis Case Assignment Module 2 Professor: Executive Summary This external analysis is critical in the development of a well rounded, cohesive strategic plan and will enable the JM Smuckers Company to gain a more comprehensive understanding of the current external operating environment and situational awareness of both future threats and opportunities.

This analysis establishes a basic industrial framework, and then utilizes Porter's 5-Forces model and PEST analysis in attempting to develop a common understanding of the industry and economic environmental threats and opportunities. Porter's Five Force model indicates that the greatest threats and opportunities facing the J. M. Smuckers company are likely in the form of substitution in the specialty segments due to the emergence and growth of CSAs and farmers markets providing locally grown organic foods, and the threat to profit margins are due to the high degree of rivalry among food manufacturers across all product segments.

The analysis also indicates that Smuckers can leverage its product depth and brand name to gain market share as consumers are driven towards value, and use its strong balance sheet to potentially seek additional products to further expand its broad product portfolio . The PEST analysis indicates that current political factors such as the national debt, state immigration laws, healthcare reform, social-cultural conditions driven primarily by the increasing demand to develop and utilize safer and greener energy, and

emerging technology innovations will have the biggest impact on the global business environment.

What should also be taken from this macro analysis is that rarely should an issue be considered solely a threat or opportunity. Instead every threat should be seen as an opportunity to distance the company from its competitors and every opportunity a chance to fall behind. The ability to understand the threats and opportunities better than the competition should enable the development of mitigation strategies for threats, the creation of plans to exploit opportunities, and guide further industry and greater economic assessment for inclusion in strategic development that leads to greater competitive advantage.

Intro In attempting to develop and formulate a comprehensive strategic business plan, corporations need to assess both their internal and external environment. This is typically accomplished through SWOT analysis. In SWOT analysis the internal assessment focuses on strengths and weaknesses, while the external assessment focuses on opportunities and threats. The objective of this paper is to conduct an external analysis that will identify and provide insight into potential threats and opportunities facing the JM Smuckers Company and will facilitate strategic planning efforts.

This external analysis should enable corporate planners to fully appreciate and understand the opportunities and threats that face the JM Smuckers Company and in turn facilitate the development of a strategic plan that incorporates mitigation strategies for threats and features resource

utilization strategies that exploit opportunities. This analysis will include setting the industrial framework or scope of the J. M.

Smuckers company analysis, an industry environment analysis using Porter's 5-Forces model, and a greater business environment analysis utilizing PEST analysis, and conclude with the threats and opportunities that face the JM Smuckers Company. SCOPE In order to identify and comprehend the opportunities and threats to the JM Smuckers Company, it is important to establish a framework for the external assessment. This will enable the analysis to cull the seemingly limitless threats and opportunities and focus on those that are more relevant.

This framework will be comprised of a company overview and establishment of critical facts from the annual report that will drive our analysis. For over 100 years, the JM Smuckers Company has engaged in the manufacturing and marketing of branded food products in the United States, Europe, and Canada. (The J. M Smucker Company, n. a.) The company markets the following products: coffee, peanut butter, shortening and oils, fruit spreads, canned milk, baking mixes and ready-to-spread frostings, flour and baking ingredients, uices and beverages, frozen sandwiches, dessert toppings, syrups, pickles and condiments, and potato side dishes under various brand names. " Today, Smuckers is the leading marketer and manufacturer of fruit spreads, retail packaged coffee, peanut butter, shortening and oils, ice cream toppings, sweetened condensed milk, and health and natural foods beverages in North America. " (J. M. Smucker Co. , n. a.) Because the primary business activity is fruit spreads, Smuckers has a North American

Industry Classification Code (NAICS) of 311421 " for the purposes of collecting, analyzing, and publishing statistical data related to the U.

S. business economy. " (NAICS, n. a.) The J. M. Smuckers Company NAIC hierarchy 31Manufacturing 311Food manufacturing 3114Fruit and Vegetable Preserving and Specialty Food Manufacturing 31142Fruit and vegetable canning, pickling, and drying 311421Fruit and Vegetable canning The 2009 J. M Smuckers Annual Report Key facts: •The Company has four reportable segments: U. S. retail consumer market, U. S. retail oils and baking market, U. S. retail coffee market, and special markets. •The three U. S. etail market segments comprised nearly 80 percent of the Company's net sales in fiscal 2009 •In U. S. retail market segments products are sold primarily to food retailers, food wholesalers, drug stores, club stores, mass merchandisers, discount and dollar stores, and military commissaries. •In special market segments products are distributed domestically and in foreign countries through retail channels, foodservice distributors and operators (i. e. , restaurants, schools and universities, healthcare operators), and health and natural foods stores and distributors. The Company realized strong sales and margin growth in 2009. Despite the impact of a global recession and credit crisis, the impact of the Folgers transaction and improved profitability in the Company's U. S. retail oils and baking market segment contributed to the strong 2009 performance. •Company net sales increased 49 percent, led by the contributions from Folgers. The Company generally benefited from the consumer trend of preparing and eating more meals at home. Operating and net income increased 59 percent and 56 percent, respectively. •Net income

per common share – assuming dilution increased approximately four percent reflecting the impact of additional common shares issued, increased interest expense, and increased merger and integration costs, all related to the Folgers transaction. Porter's 5-Forces: The Industry External Environment
Porter's 5-Forces model will be used in conducting the assessment of Smuckers industry external environment.

This analysis will look at factors that affect the following elements: industry barriers to entry, bargaining power of suppliers, bargaining power of customers, availability of substitutes, and the degree of rivalry among competitors. The analysis will be limited to the identification and evaluation of one or two key items in each element of Porter's 5-Forces model.

TOP PROCESSED & PACKAGED GOODS COMPANIES BY MARKET CAP

Company	Symbol	Price	Market Cap	P/E
Pepsico, Inc.	PEP	63.50	102.41B	16.14
Unilever NV	UN	28.86	81.15B	18.30
Unilever plc	UL	28.05	78.87B	17.79
General Mills Inc.	GIS	36.15	23.73B	16.14
Kellogg Company	K	51.77	19.71B	15.0
The J. M. Smucker Company	SJM	62.36	7.45B	15.03

(Industry & Packaged Goods , 2010) The first element in this analysis is barriers to entry and this is assessed to be low risk. This element focuses on the ability of new companies being able to enter an industry. The threat of new entrants can potentially drive down profits for the industry as competition increases for market share. Current Bureau of Labor statistics indicate that the number of private industry establishments in food manufacturing has increased in 2009 (latest data available) from 28, 205 in 1st Quarter 2009 to 28, 4314th Quarter 2009 (Food Manufacturing, 2010).

This trend seems to indicate that despite the less than stellar economy there are companies looking to enter food manufacturing which could negatively affect profit margins. Key hurdles for new entrants include: lack of brand recognition and the lack of access to critical resources, such as infrastructure, financing, and personnel. The primary areas of concern for Smuckers are its specialty segments, which are areas new entrants may target due to the growing demand for sustainable organic local products. The second element in the analysis is the bargaining power of suppliers is assessed to be a medium threat. Suppliers, if powerful can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits" (Porter's Five Forces, 2007). The Institute for Supply Management and Economic Growth Report released 27 April 2010 indicates that " Manufacturing is emerging from a period in which many companies lost significant volumes of business due to reduced demand. While excess capacity and meager capital investment are concerns, the forecast of revenue growth and improved employment will drive the continuation of the recovery" (Food Manufacturing, 2010). This would suggest that a slow steady increase in demand for raw materials can be anticipated. However, the increase in demand in raw materials will be impacted by how quickly excess capacity is brought back on line by the industry. In an effort to minimize the volatility of raw materials, Smuckers should continue to leverage its purchasing power and the use of commodity futures to mitigate the price volatility of raw materials.

The third element in the analysis is the bargaining power of customers and is assessed as a low risk. Due to the breadth of the Smuckers product line it has to contend with varying degrees of buyer power. In the non-specialty goods, coffee, and retail oil segments, the consumers have many options and consumers have more impact on pricing. Therefore these segments are more sensitive to changes in disposable income. A result of the recent economic conditions has seen customer preference move from quality to value orientation.

Recent Bureau of Economic (BEA) analysis data indicates that disposable income " increased \$49. 0 billion, or 0. 4 percent, in May, compared with an increase of \$63. 7 billion, or 0. 6 percent, in April. " (Personal Income and Outlays, May 2010, 2010) This trend seems to indicate that the current value trend will continue. Despite current economic conditions there are opportunities for Smuckers to increase its market share by leveraging its product breadth and brand recognition for value.

The fourth element in the analysis is the availability of substitutes, and this is assessed a medium to high level risk. " In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the change of a substitute product. " (Porter's Five Forces, 2007) The assessment of a medium to high risk is based on the growing trend of consumers towards community supported agriculture cooperatives (CSA), increasing numbers of farmers markets, and an increase in home gardening.

Since 2007 the number of CSAs and CSA shares has steadily increased as awareness about this form of farm to market channel has increased. While the short term threat to global corporations seems small, the increased desire for safe sustainable organic products is driving the current growth of these direct farming to market channels and should not be dismissed. This is especially true of the more affluent consumers as they strive to adjust purchasing habits based on both economic and ideological reasons. CSA GROWTH Chart SHARES200720082009 CSAs%CSAs%CSAs% 25 OR LESS6044%5340%8041% 6-503123%3623%4021% OVER 504634%5138%7438% TOTAL137160194 Source: (Woods, Ernst, Ernst, & Wright, 2009) The fifth element of the analysis is the degree of rivalry among competitors and this is assessed as high. This analysis is based on the impact that concentration, growth, capacity, and exit barriers have on competitiveness. Food Manufacturing Economic Census 2002 Concentration Ratios # of companiesTotal value of shipments (\$1, 000)Total Value of shipments (%)Herfindahl-hirschman index for 50 largest companies ALL23, 334458, 247, 704100x 4 largestxx16. 8x 8 largestxx25. x 20 largestxx39. 8x 50 largestxx53. 1118. 7 Source: (US Census Bureau, 2006) The driving factor in this assessment is the industry concentration ratio of 53. 1 and Herfindahl-Hirshcman index (HHI) of 118. 7 for the 50 largest companies. This indicates a medium level of concentration for the food manufacturing industry and therefore a high degree of rivalry for market share. This is further exacerbated by the pressure to increase/maintain market share and profit margins during a period of economic uncertainty. PEST Analysis: The Greater Business Environment

The PEST Analysis will provide a greater understanding of the macro business environment in which the Smuckers Company is operating. This analysis will assess the impact of political, economic, social, and technological forces that are beyond the control of Smuckers but which will impact strategy development and decision making. As with the previous analysis, the PEST Analysis will be limited to the identification and evaluation of one or two key items per element. Political Factors The current assessment is that the impact due to political factors on the greater business environment is high.

The three factors driving this assessment are the global focus on national debt issues, state immigration laws, and healthcare reform. Perhaps the biggest concern and impact will be felt due to the effort to reduce the National debt which is expected to exceed \$14 trillion dollars (Johnson, 2010). “ Republican Alan Simpson and Democrat Erskine Bowles told a meeting of the National Governors Association that everything needs to be considered — including curtailing popular tax breaks, such as the home mortgage deduction, and instituting a financial trigger mechanism for gaining Medicare coverage. (Johnson, 2010) Clearly the U. S. will be called on to implement a get out of debt strategy that is acceptable to the World. The likely increase of taxes will be compounded due to stiffer state immigration laws that potentially decrease available labor pools and finally there will be the added requirement to provide enhanced health care benefits to seasonal workers. The food manufacturing industry will likely be hard pressed to

maintain current pricing models as raw goods suppliers are forced to adapt to the changing employee requirements.

Economic Factors The assessed impact of economic factors on the greater business environment is assessed as medium. This is primarily due to slowing of the U. S. economic recovery and the increasing possibility of a double dip recession. Across there is a great amount of uncertainty from national debt issues in the Euro zone, China's nagging labor issues, and India's potential inflation issues, which are long term issues that will impact international business. While there is much confusion and uncertainty opportunities exist for companies that have strong balance sheets to expand through mergers and acquisitions or lower borrow costs as a result of low long term interest rates due to global demand for U. S. treasuries.

Socio-Cultural Factors The impact from social-cultural issues is assessed to be high. This is being driven primarily by the growing demand for the use of safer renewable energy sources and the desire to conserve precious resources like water, oil, and gas. While the motives behind green energy solutions may vary, there is no denial that demand for green energy is increasing among consumers, corporations, and nations.

In fact the recent BP oil spill in the Gulf of Mexico has only strengthened the argument for the development of green energy solutions. The impact to the economy will likely manifest itself in higher energy costs as current green energy sources are more expensive than traditional sources, there will likely be taxes to support government subsidies to foster development of green

energy, and the initial cost of developing green infrastructure are all likely to affect the bottom line. Technical Factors

The impact of technology on the greater business environment is assessed to be very high. Like most industries the food manufacturing industry will feel the impact of advancements in research, technology development, and implementation. Failure to leverage emerging technologies will result in competitive disadvantage. Nano coatings are one example of emerging technology that will have an impact on the food manufacturing industry. The impact will be felt through enhancing food safety and reduction in production cost. Nanocoatings can be applied to machinery to inhibit bacteria growth, which means they need less cleaning” (Harrington, 2010). Conclusion In conclusion, The J. M. Smucker’s corporation will face multiple challenges and opportunities. Porter’s Five Force model indicates that the greatest threats are due to substitution in specialty segments due to the emergence and growth of CSAs and farmers markets providing locally grown organic foods and the high degree of rivalry among food manufacturers that threatens profit margins across all segments.

While the PEST analysis indicates that current political factors, social-cultural, and technology will have a significant impact on both near and mid-term business planning and strategy development. This analysis should enable the development of mitigation strategies for threats, the development of plans to exploit opportunities, and guide further industry and greater economic assessment for inclusion in strategic development. What

should also be taken from this analysis is that rarely should an issue be considered solely a threat or opportunity.

Instead every threat should be seen as an opportunity to distance the company from competitors and every opportunity a chance to fall behind.

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