Case study on strategic analysis management essay

This will be done through analysing the variety stores industry in which Woolworth operates, the companys past, present and future growth strategies and its current performance. Using recognised strategic tools, the various options available to the company will be recommended and evaluated.

METHODOLOGY:

The Methodology that will be used to compile this dissertation will mainly be in the form of secondary research. This is largely because the nature of the project requires the co-operation of managers at very strategic level of the company. The Managers understand and have sufficient information on the strategic direction of the organisation. The writer was unable to arrange interviews with the management in the company, as information they have cannot be made public for confidential reasons. As a result it is deemed that the information gathering from other sources within the company would not be as reliable as desired for this topic. Informal primary research interviews will be arranged to gain general information on Woolworth's PLC's policies and operations with members of Woolworth's store staff.

Secondary information will also be used to compile this dissertation due to the availability of reliable and valid information on Woolworth's PLC and the variety retail industry. Secondary research will be conducted through examination of annual reports and accounts of the company and it's main competitors. To evaluate these, sources such as Mintel Marketing Intelligence Reports and Marketing and Business trade journals will be used. Published academic books on Strategic Management will also be used to assist with the theoretical elements of this dissertation.

HISTORY

Woolworth’s is generally described as a variety store. These are organisations that concentrate their efforts on the retailing of a range of products in the lower and more popular price ranges. They provide a walk in, shop and carry facility as the major route of purchasing (home delivery and pre ordering being rare), with open display and self-service merchandising. They are unlikely to be departmentalised. Other related categories include department stores, discounters and specialist shops (also known as category killers) (Oxford English Dictionary 2001).

Woolworth’s was first established by Frank Winfield Woolworth in 1879 with the concept of selling products costing no more than 5 cents. This proved a popular idea with the consumers and the turnover continued to grow. The concept was of no frills shopping, with a range of low priced, non-perishable items. When F. W. Woolworth died in 1919, he had built an empire of 1, 081 stores with sales in excess of $118 million per year (Faulkner *et al* 2003). The company continued to grow and developed internal competencies in areas such as marketing, finance and estates management (Faulkner *et al* 2003). Faulkner *et al* also comment that this period of Woolworth’s history was characterised by the focus of its strategy: it was able to deepen its existing competencies and incrementally expand both its competency base and it knowledge of different market environments (such as suburban retailing) (Faulkner *et al* pp. 279 2003).

However, this was to prove insufficient when discounters and category killers became more prevalent in the market. Wal-Mart had begun trading in general merchandise at low prices and specialist retailers, such a Toys- R- Us provided a destination shopping location for those consumers seeking a particular product, a wider range of products or specialist knowledge about the products. Woolworth's began a decline in sales in real terms due to its lack of insight of how to capitalise on the prevalent retail preferences. They failed to take the move to expand their business either into a wider focus or a narrower one, strategies which would have given them a platform from which to take on their competitors.

It wasn't until the late 1980s that Woolworth's changed their strategy in the United States with their diversification into specialist areas, such as Kids Mart and Little Folks, as well as entering the discount retail business with the Woolco concept. However, they lacked the competencies and capabilities to make up for the time they had lost which had allowed their competitors to establish a strong market lead and in 1995, Kids Mart and Little Folks both closed down. This was on top of the closure of 400 stores in the USA and the sale of 122 Canadian Woolco stores to Wal-Mart (Faulkner et al 2003). One of the specialist areas they had entered into, footwear, did prove to be a success and led Woolworth's in the USA to open over 7, 000 athletic footwear stores covering a range of gender and age segments by 1998. The company decided at this stage to change its operating name in the USA to the Venator Group (Faulkner *et al* 2003) and to reposition itself as a specialist sports footwear retailer.

The groups business in the UK moved in a different direction and kept the original company name. At present, in the UK, Woolworth currently owns around 900 stores selling toys, confectionary, house wares, seasonal products and electronic entertainment. The UK business has also moved into specialist areas with the introduction of MVC home entertainment and electronics which currently has 85 shops, E. UK, which is the largest distributor of home entertainment products in the UK, and the music and video publishing arm VCI (Cornell date unknown). Having become a public company in 1931, Woolworth's was briefly taken over in 1982 by Kingfisher, but returned to public ownership again in mid-2001.

Woolworth's stated aim is to be at the heart of the community and the best loved retailer for kids, home and family leisure (www. woolworthsgroupplc. com).

As will be seen Woolworth's performance has been variable over recent years and in January 2005, they received a takeover bid from the private equity group, Apax. Although the Woolworth's board rejected that offer, a higher one was received four weeks later and is currently under consideration. This means that the future for Woolworth's is an uncertain one, with the possibility of a substantial cash injection, but diminished control for the current management team. Should the Apax offer be rejected again, Woolworth's is likely to receive offers from its major competitors.
PORTERS FIVE FORCE ANALYSIS.

Threat of new entrants

Despite the high number of retailers dealing with general merchandise, two areas are seen as being particularly relevant.

Currently, there are only two catalogue based shopping concepts in the UK, Argos and Next. This market remains highly under-represented considering the success particularly of Argos and it could be expected that the concept will be taken up by more companies in future. These businesses offer the full range of house wares, electrical goods, toys and gifts as available from Woolworth, and have a distinct competitive advantage in their practice of minimal stock holdings in store allowing extra selling space to be released. They may face difficulties in finding the number and size of locations they would need to become a major player in this market, but this could be overcome through the acquisition of an existing retailer.

Further new entrants may be seen as foreign companies try to increase their market share. These have already been seen in two main forms. Firstly the specialist retailers who started from nothing in the UK and have achieved good organic growth. Examples include Toys-R-Us, Ikea, Gap, H&M, Beneton and Poundstretcher. The second group are those who gain a foothold in the UK market through acquisition. These include Wal-Mart, Brantano and Claires Stores. There is no reason to expect the level of foreign retail interest in the UK to decrease.

Bargaining power of suppliers

The bargaining power of suppliers has been much diminished with the development of e-commerce. Because of the vast increase in access to information between potential suppliers and buyers, the suppliers pricing strategy may be the only way to secure business. This is likely to increase as more use is made of the Internet. One recent development has been the practice of reverse auctions where a retailer specifies what they want and competing suppliers out bid each other, via a web site, by lowering the price rather than by raising it as in the traditional auction (www. gusplc. com).

Once suppliers have been agreed, the large size of this retail sector also ensures buyers can act from a strong negotiating base, as they have significant control over the future health of dedicated suppliers. Recently there has been publicity around the practice of large retailers setting what are seen as unfair terms with suppliers and of insisting on price reductions even though the supplier then operates at a loss (Telegraph 2005). However, it is not expected that any legislation will bring about changes in this situation in the foreseeable future.

On the negative side, specialist suppliers such as those supplying mobile phones and computer games, have an increasing amount of power due to the demand for their products. A retailer would need to ensure they have sufficient quantities of a product such as the latest Playstation, for the Christmas market, but are frequently left in the hands of suppliers who can give preferential service to other customers.

Threat of substitutes

Product substitutions can be used in two different ways. Firstly, as is the strategy of many of the main supermarkets, own brand labels are seen as acceptable substitutions for everyday grocery items. The cost of substitution is low to the customer i. e. they feel that there is little risk because of the loyalty they have to the store. The other type is through introducing higher priced, luxury type items. This strategy can be seen in the Marks and Spencer food sector where they market the products as being superior to other brands. For the variety retailers, the concept of substitution does not seem to have been fully exploited and it is a possible strategy for securing market share in the future.

Bargaining power of customers

The high level of competition amongst retailers has led to a position of power for the consumer. Having moved from seasonally driven sales events to permanent deals, the aggressiveness of these approaches has also increased. Customers now expect to be able to get three for two offers throughout the year. This puts the retailer at a disadvantage, as they will lose the potential benefits of targeting marketing promotions and means they are continually forced to take the path of competitive pricing. This can lead companies to over rely on the profits made from a limited range of products whereas the rest of the ranges operate at unsustainably low profit margins as loss leaders.

Competitive rivalry within the industry

The variety stores sector is highly competitive and there is no reason why this should not continue to be the case. It is suggested by retail analysts, Peters, Elworthy and Moore, that the variety store business in the UK has become saturated and that the larger stores are likely to take over or merge with the independents (cited in Potts 1996). Competition from superstores and supermarkets is expected to increase as they add to their ranges of non-food items in a bid to gain a higher share of the overall consumer market (Potts 1996).

It is also expected that the differentiation between department stores, variety stores, home shopping and supermarkets will become less sharp as retailers look to alternate channels and increasing product ranges to maximise their turnover (Potts 1996). This will make it difficult for new entrants to enter the market unless they benefit from a unique selling point such as discounting, as has been seen with companies such as Wilkinson’s.

PEST ANALYSIS:

Political

Ecological/environmental issues- corporate social responsibility (csr)- The main belief around csr thinking is that the practice of businesses within the capitalist economy to concentrate their efforts on providing wealth for its shareholders, is unacceptable and that companies should take the responsibility of considering the well being of society as a whole (The Economist, January 22nd 2005). It has been countered by Lynch that failure to make a specific statement on ethical issues, does not mean that a company is not fundamentally ethical in the way that it does its business (Lynch 2003).

Retailers generally are coming under increasing pressure to ensure they cannot be charged with poor practices with regard to the developing world or the environment. The activities of and publicity around the anti-globalisation movement, may dissuade organisations from expanding their markets abroad, although many see these as a small minority and it is questionable as to whether their activities would cause a company to alter their strategy. It is more likely that they will take the issues into account in terms of having a robust csr policy and when reporting to the media. Woolworth’s made the following statement on csr in their latest financial statement: “ During 2003/4, through the CSR Committee, Woolworth’s Group has continued to work to understand the impacts, both positive and negative, of our business.

A proper understanding of the risks we must manage and the opportunities we have to be a catalyst for improvement is a fundamental part of how we do business (www. woolworthsgroupplc. com). Woolworth has specific policies on the areas of timber and chemical usage, a strict code of ethical trading and has set up its own charity (Woolworth Kids First) to provide the opportunity for their employees to help children on a local basis (www. woolworthsgroupplc. com). Whilst Woolworth's are outwardly taking their csr seriously, it is an area that has come from nowhere to heavily impact organisations in the past and Woolworth would do well to bear in mind the impacts on Nestle of the baby milk episode and on Marks and Spencer of the sweat shop issues.

Legislation- a new White Paper has been announced that will give retailers the ability to offer legal advice through their own law companies. Dubbed Tesco Law, it provides a further service to encourage the one stop shop approach of the large supermarket chains (BBC D). Supermarket chains, which are one of Woolworth's main sources of competition, have had a strategy of offering a one-stop shop opportunity to their customers with the introduction of such facilities as pharmacies, banking facilities and insurance. It is not yet known whether Woolworth's is planning to introduce such offerings in its store.

Government policies- in the recent budget, Gordon Brown announced a doubling of the threshold for stamp duty on house purchases to £120, 000. This was done to assist particularly first time buyers. Encouraging the housing market will have a beneficial effect on Woolworth's house wares, furnishings and DIY ranges, but this will obviously extend to their competitors as well.

Government term and change- whilst a General Election is due in the UK, the writer believes that there would be no significant impact, either positive or negative, were the political party currently in power were to remain or change.

Economic

Home economy situation- the current economic situation in the UK can be seen as a positive factor for Woolworth's with low interest rates (2. 7%) and high property values leading to record levels of borrowing. However, there are concerns over the level of borrowing as debt levels for have reached more than £1 trillion (BBC E). It should also be noted that low interest rates would dissuade people who are living off investments from spending, although these tend to be those in retirement who are not considered to be Woolworth's target consumer. They have identified that their typical customers are mothers with dependent children living at home(www. woolworthsgroupplc. com).

Home economy trends. The Government states that Council tax will rise by an average of 4. 1% in the next financial year, the lowest increase in more than ten years (BBC B). In the housing market, figures for changes in house prices vary by source with the Halifax quoting a 0. 5% rise and the Nationwide a 0. 5% fall (BBC A 2005). There is currently no solid evidence of a crash in the housing market. Should this occur, the impact on the whole retail industry would be immense.

Overseas economies and trends- oil prices had risen to a high of $56. 15 per barrel in mid March (BBC F). Although they are currently falling, they remain 25% higher for the year (BBC F). Long term, the situation is likely to worsen as demand for oil increases from growing economies such as China, where the economy is growing at 9% and a 10% increase in oil use is predicted for 2005 (BBC F 2005). High oil prices will affect both production and distribution costs for all retailers and will have to be passed onto the consumer through increased prices if alternative savings cannot be made in the value chain.

Market and trade cycles- despite good economic factors such as low interest rates, the UK retail economy seems to be slowing down. In March Morrison, Boots and Jessops put out profit warnings and it was reported that data suggests generally poor retail sales and weak spending for the period since Christmas (Verdin 2005). The figures point to a growth in consumer spending of only 0. 2% for the last quarter of 2004 the weakest figure for almost two years (Duncan 2005). No specific cause for this downturn has been identified; although the writer would suggest that the publicity around levels of personal debt and the worsening pension crisis may have some influence.

Social

Consumer attitudes and opinions- Mintel’s annual lifestyle report has found that consumers are shunning the larger supermarkets and chain stores which they find impersonal, and are much more likely to frequent local, independent shops (cited in BBC C). The implications of this for Woolworth could be positive or negative. To many people, they may be classed as a multi-site retailer and therefore avoided by the consumer. However, the history of the company, its generally high street locations and the nature of the products it sells may lead some to choose it as a shopping venue over large supermarkets. In this area, the history and reputation of Woolworth's can only be beneficial.

Fashion and role models- the value of celebrity endorsement is well understood by the retail industry and icons such as Jamie Oliver, Delia Smith and David Beckham have all become associated with particular brands. Woolworth identified this pattern and adopted the puppet characters, Woolly and Worth, for their 2004 Christmas campaign. Its success has encouraged them to continue the use of these characters for future advertising campaigns (www. woolworthsgrouppls. com).

Technology- the rate of increase in use of cutting edge technology based items has given retailers a highly lucrative new product range. For example, mobile phone technology only became widely available in the early 1980s, but today, approximately one in six of the world's population owns one and in most of the developed countries, market penetration exceeds 70% (The Economist 2005). As well as the phones themselves, the associated hardware and software are highly popular and unexpected markets have developed, for example, ring tones. There are no indications that these products will do anything other than maintain their growth and the continual developments in technology help to keep the market buoyant.

Consumer buying mechanisms/technology- the growth of e-commerce has provided two new strategic directions for retailers. Firstly, there is the opportunity of selling the technology itself- mobile phones, personal computers, software, downloads, games- and secondly, it provides a further channel through which to sell goods. All the major retailers have web sites on which customers can research products, compare prices, order and pay for goods and, as such, there is reasonable competition to encourage consumers to visit particular web sites. An extra dimension is the number of companies who sell only through the Internet. This provides them with a competitive advantage of having lower overheads as premises and shop floor staff are not required.

A good example of this is the book retailer Amazon. com who have diversified into clothing, apparel, DVDs and compact discs following their success with books. Further channels have yet to be fully utilised including ordering goods through mobile phone technology and digital television shopping channels. Whilst building their e-commerce business, Woolworth's need to ensure it is based on a stable and secure foundation. Although not alone in the experience, they had to close their www. woolies. co. uk site for two months in 2000, when a customer reported that they could view other people's credit card details on the site (Azeez 2002).

Maturity of technology- Radio Frequency Identity Tagging (RFID) is seen as the way forward by many retailers who are undertaking trials of the technology. The most well known is probably Tescos who have been testing it on their high relative value, easily portable items such as razors. Woolworth had been trialing systems but has announced this year that there is no longer funding for the project (www. woolworthsgroupplc. com). They are allowing the technology to reach maturity and should then be able to capitalise on the research done by others. There are some risks with this strategy as it gives the competitors the opportunity to realise the benefits of such technology at an earlier stage. However, it also protects Woolworth’s from the high level of risk associated with this technology and dealing with issues raised by the Data Protection Act.

STRATEGIC GROUP ANALYSIS.

The competitors of Woolworth are deemed as being:

Discounters– those stores which offer stock at particularly low prices and have this as a unique selling point. These would include: Wilkinson’s, Asda-WalMart and Poundstretcher

Supermarkets– stores that historically sold predominantly food items, but have now generally expanded their range to include substantial non-food categories. Examples are: Tesco, Sainsbury, Asda-WalMart and Waitrose

Department stores– a store which sells a range of items, usually non-food, that divides its goods into distinct areas of the store. In the UK this category includes: M&S, Debenhams, House of Fraser, British Home Stores (BHS), and John Lewis

Catalogue stores– the retailer has a large proportion of the store space dedicated to storage rather than selling space. Few, if any goods are on display and customers select from a catalogue, usually without viewing the product first. Argos and Next are the most well known in the UK.

Specialist stores– those who concentrate on selling a particular product, which corresponds to part of the Woolworth range. For example, Mothercare and the Early Learning Centre for children’s clothes, B&Q, Homebase and Focus DIY for DIY products.

Competition is high for all segments of the retail industry which has lead to a blurring of the differences between the categories. Many companies are diversifying into new sectors or aiming for higher market penetration in their existing products. A good example are the supermarkets which have had many years of fierce competition with the main three, Tesco, Sainsbury and Asda, regularly changing places in the retailer league. Their strategy involves adopting a hybrid approach. Cost leadership to some degree by ensuring they maintained competitive pricing for generic products and then offering their own brands at a significantly lower price and differentiation in terms of the range of products they offer by branching out into greater ranges of non-food items. New entrants to the market had to have a unique selling point to appeal to the consumer and found it in terms of outperforming the established market in cost leadership. Aldi, Netto and Lidl have achieved some success in this, providing generally unfamiliar brand named, everyday products at a significantly lower price than the main supermarkets.

The supermarkets also attempted to increase their market share through increasing their ranges of products and increasing the size of their stores to include superstores and hypermarkets. Other tactics include offering an appearance of being more exclusive (such as Waitrose and Marks and Spencer), positioning as a leader in corporate social responsibility (as in the Co-Operative stores and their Fair-trade products) and seeking new selling opportunities (for example, Marks and Spencer's food outlets in service stations). The amalgamation of Asda and WalMart and Morrisons and Safeway showed that some of these strategies left companies with no clear customer focus, trying to be all things to all people, and, with decreasing sales and market share, they became attractive propositions to companies wishing to achieve a foothold in a new geographical location (the south of

England in the case of Morrisons and the whole of the UK in the case of WalMart).

The biggest threat to Woolworth's from these stores has been through product diversification. Initially seeking to offer a one stop shop experience, with selling general merchandise, they then took on specialist stores such as Lloyd's pharmacies, and non-retailers with the offerings of financial services.

The specialist stores have had to recognise that as well as competing between themselves where products overlap, they are now also having to take on the supermarkets. Music retailers, such as HMV and Virgin, are experiencing pressure from supermarkets, who area able to take them on in terms of cost leadership due to economies of scale and value chain efficiencies, leaving the music stores with the only option of maximising their niche qualities. However, the increasing popularity of e-commerce, both in terms of new retailers and innovative product formats (such as downloads), has put this strategy at risk as their niche status is coming under attack. The implications for Woolworth's high street stores are that they are having to rely on appealing to customers who are not seeking a specific item when they enter a store, as they cannot compete on grounds of price or specialism. Their appeal is to the impulse purchaser or those who are buying for someone else and are unsure of what they want. This merges well with the Woolworth strategy of concentrating on Kids and Celebrations. However, if they are positioning themselves as a one stop shop provider for celebration events, they are still in competition with the supermarkets who are able to provide the same items and the opportunity to purchase them whilst doing the regular grocery shopping.

In areas where Woolworth has traditionally been seen as a key provider, children’s clothes, again, the supermarkets are offering a cost leader alternative with a strong fashion selling point, by employing well-known designers to support their products (such as George at Asda). Tesco recently showed their power by offering Levis jeans at a price point lower than the manufacturer. Coupled with this is the strategy of other companies to move into this line as a new product or to increase their market share. Key players are Mothercare and The Early Learning Centre. Seen as specialists for the child market, their threat to Woolworth is significant as is that of clothing retailers identifying the market for children’s clothes and exploiting it using their strength in reputation to appeal to the consumer (Gap Kids for example).

Whilst all these forms of retail outlet vie for the consumers business, there is an inherent risk for all of them in terms of being able to convert their sales into profit. With competition being so fierce and coming for several different directions, most retailers have to ensure that whilst they are not necessarily the cheapest, they are competitive. The exceptions to this are those that promote themselves as exclusive, such as Waitrose. All these retailers are seeking to reduce their costs through driving savings with the value chain. This has wide reaching implications. As pressure increases to produce the goods at a lower cost, the source of production moves to countries with lower wages and poorer working conditions. As well as affecting the UK economy through increased unemployment, there have been cases where the apparent violation of human rights has produced poor publicity for the retailer. An example of this is the situation Marks and Spencer encountered in the late 1990s.

On the one hand they were being accused of being too expensive, so they moved production of their clothes to developing countries. This led to an outcry in the media when companies in the UK who had been supplying them for years, could no longer operate and had to close down.

Another strategy to reduce production costs is to use cheaper raw materials, but again, the negative aspects of this receive attention, with the current example being the questions raised over the nutritional value of cheap food products.

Within the organisations themselves, streamlining head office personnel in terms of numbers and outsourcing support functions such as recruitment, have shown to be effective in the short term, but the long-term effects of cutting costs in areas such as research and development and training has yet to be seen.

SWOT ANALYSIS.

Strengths

Many of Woolworth’s strengths come from its long history. They have a recognised internal competence in supply chain management and are able to use this both to reduce their costs and to enter into agreements with organisations that would traditionally be classed as their competitors, such as Tesco. They are using their expertise to provide additional turnover. Their contracts with other companies that utilise their strengths also allow them to minimise the risks to themselves. Having been long established, Woolworth has a good reputation in the UK and is a recognised name on the high street. They have a strong presence in toys, house wares, confectionary and seasonal products markets and due to their size can boast a dominant position over the majority of their suppliers.

The perception of consumers is of a high level of corporate social responsibility, having not been subjected to significant poor publicity in any areas. The general economic conditions in the UK are promising although the recently reported slow down in consumer spending must be regarded as a risk. The locations and number of stores operated by Woolworth's can be seen as a further strength, especially as consumer preference moves away from out of town shopping. They have made a good move in the adoption of advertising icons, which are considered to be a key element of their marketing campaign. Recent improvements in their stock management systems involving the introduction of an integrated replenishment system and the Kingstore till systems, gives them the ability to manage their stock levels more efficiently, thereby reducing both costs and instances of stock outages.

They have undergone a recent review of how they can improve their operational efficiency and this shows a proactive strategy to take on their competition. They have a high level of understanding of customer base which they have developed through their long history in the retail market. This enables them to predict changes in consumer requirements and gives them the potential to maintain a competitive edge. Their decision to increase their use of their own brand products gives them the opportunity to heighten their market penetration in these areas, whilst their expansion of electronic entertainment offerings shows a desire to widen their range within a specific sector. These strategies seem to be successful at present.