

The competitive elements of illovo malawi business essay



Critically assess the strategic context within which your firm operates using any conceptual framework, which you think is appropriate, and explain which are the most important general business trends and competitive elements. Which of these should strategic decision makers in the company of your choice consider the most and why?

Illovo Sugar (Malawi) Ltd is a subsidiary of a South African company - Illovo Sugar South Africa. Illovo Sugar Malawi is the country's largest sugar producer. There are two other companies that have just set up within the previous two years, however, they can not be acknowledged as of yet as they are yet to commence operations.

Illovo sugar is a large multinational company that spans across six African countries that include Malawi, Tanzania, Zambia, Mozambique, Swaziland and South Africa. They are the largest sugar producers within each respective country that they are present in. Illovo Sugar operates through subsidiaries within each of the mentioned countries. When we analyse to total volume of sugar produced amongst all the facilities that Illovo owns, it shows that they are the largest producer of sugar within the African subcontinent. Illovo Sugar is listed on the Johannesburg Stock exchange and on the Malawian and Zambian Stock Exchange respectively (as subsidiaries). The majority ownership of Illovo Sugar, 51% of it, belongs to a FTSE 100 Company - Associated British Foods Plc.

Illovo Sugar Malawi, along with its other subsidiaries within Africa, have shown year on year consistent growth for the entire Illovo Group in Africa, it

is this level of performance which has labelled Illovo the largest sugar producer in Africa.

PESTEL Analysis:

I will now outline a PESTEL analysis for Illovo Sugar Ltd, within which I will cover all the political, economical, social, technological, environmental and legal aspects that affect Illovo Sugar.

Political:

Political stability within Malawi has been an issue for Illovo Sugar Malawi during 2012. The autocratic rule of the former president came to an unexpected end when he died due to cardiac arrest. This meant that Illovo had to form new connections with the new president (former vice president) who had her own political party. Doing so, it would give Illovo access right to the top of the tree; it could therefore exercise this communion whenever it needed to.

When the government attitude is looked upon, due to the economical problems in Malawi, the extreme lack of forex has led to many problems and it has crippled the economy. The current regime is on the move to increase exports in order to generate the much-needed forex, this being a direct presidential initiative. Due to Illovo Sugar Malawi being one of the top exporters within Malawi, it is therefore one of the favourable organisations directly from the offices of the president.

Corrupt governments usually impact organisations when they make

decisions at firm levels. The impact of corrupt ministers and even presidents
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in some cases prove to be a vital political problem to a large company such as Illovo Sugar. In this case, as far as it can be noted, it seems that Illovo Sugar Malawi has steered away from being influenced by such people or governments.

Economical:

Malawi is currently enduring one of the harshest conditions related to its economy. It has literally crippled, from being the second fastest growing economy in the world in 2008, it has fallen at such an alarming rate, at the expense of the autocratic rule of the former president who despised the western donor countries. It led to intense shortages of forex within Malawi, and with Malawi being a predominantly importing country, it crippled many sectors and inflation started to rise at an alarming rate.

The biggest cause for concern is the devaluation of the Malawi Kwacha - it will increase costs from all aspects for Illovo Malawi, however, due to the floatation of the currency within the international markets, it will therefore obtain better prices for its commodity on the international market.

Credit availability and interest rates are also a problem for Illovo Sugar Malawi. The credit is available but due to liquidity shortages of the Malawi kwacha, the Reserve Bank of Malawi has put high interest charges on credit facilities. Due to this problem, Illovo Malawi will take out as little credit facilities as its needs in order to avoid high interest charges[1].

When the overall industry growth is analysed, it can be compared, volumetrically, that Illovo Sugar Malawi has continued to grow despite all the

problems it faces. It continues to be the largest contributor to the Illovo Sugar Group at 39% of its overall operating profit[2]. Therefore, the industry continues to grow and the prospect for the future for Illovo Malawi looks good in terms of an economical aspect.

Social:

Illovo Sugar Malawi operates two relatively large facilities within Malawi. They employ approximately 5400 people fulltime and around 4500 seasonal employees. They provide employment to local Malawians with added benefits as part of their corporate citizenship scheme. Illovo Sugar Malawi also works hard in maintaining their corporate social responsibility image. They have built schools and medical centres within the local communities. Every employee has access to medical and educational care, with his or her dependants included too. Apart from this, they provide housing to over 4500 people with amenities such as running water, electricity and waste management services[3].

Apart from the above, Illovo also carries out other social acts of charity in the form of donations to hospitals and of aid to relief victims of natural disasters within Malawi.

Apart from maintaining it's own sugarcane growing facilities, Illovo plays a socially responsible role when it comes to purchasing sugarcane from local smallholder farmers. They account for up to 13% of Illovo Malawi's total raw material volume[4].

Technological:

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Illovo Sugar, as mentioned is the largest sugar producer in Africa, therefore they are bound to keep their technological mind-set at its peak performance. In the current world, technology is known for making processes much simpler and carried out faster and efficiently. In regards to plant and machinery at Illovo, which is the core of the entire business, they will pay the highest attention to new technological entrants within the market. Efficiency, cost saving and speed is what drives any manufacturing business and it is the same with Illovo Malawi.

New process technologies within this line of business can rapidly give the edge over competitors and Illovo can utilise this to their advantage. If a new technological concept is trialled on one site, if proven to be successful, provided all factors are considered, they can easily apply this to all their sites and reap the benefits.

Illovo grows their own sugarcane and technological advances in farming methods are constantly advancing, therefore they are always developing and making the entire process easier in order for the stakeholder to gain maximum benefits, i. e. maximum output of raw material.

Environmental:

Illovo Sugar Malawi consumes a lot of electrical power, in order to be environmentally efficient, they use the waste material known as bagasse to generate the needed levels of electricity. The bagasse is a bio-renewable fuel source and it helps to keep the environmental impact of the entire operations at a minimum. In this way, Illovo is also totally self sufficient in terms of electricity supplies.

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Illovo also controls all wastewater from the sugar making process; it treats and recycles the water for use in its cane growing operations[5]. Both sites of Illovo in Malawi annually plant new trees in order to counteract environmental degradation and soil erosion that may be caused during the farming stages[6].

As a by-product of the sugar making process, various alcohols can be extracted from the process. Illovo Malawi therefore contributes to fuel alcohol distilleries in Malawi and they produce ethanol, which is an alternative bio-fuel.

Legal:

Health and Safety is one of the legal challenges that Illovo faces. They run a large health and safety campaign in order to prevent any incidents. They continue to influence the mind-set of all its employees on the various health and safety aspects to be safety conscious. They also design safety programmes for the wider communities spread across the two estates thereby increasing safety awareness and improving safety habits.

General Business Trends:

Within Malawi, Illovo operates on two tremendously large sites that are situated within the southern and northern districts of Malawi respectively. Illovo Sugar Malawi Produces, on average, 300000 Metric Tons of Sugar within the two sites combined. Almost 60% of this is sold within Malawi itself due to the high demand throughout the year. The remaining 40% is supplied to neighbouring markets, with Zimbabwe being the largest buyer. Through

the remaining 40%, it either ends up within the European markets or within the local regional countries, i. e. Zimbabwe, Kenya and Uganda[7].

Illovo Sugar Malawi is the highest contributor within the entire Illovo group, by virtue of its operating profit. When analysed, it is the third largest out of six subsidiaries in terms of volumetric sugar production, however one can only come to the conclusion that Illovo Malawi is fetching better prices for its refined, non refined and speciality sugars within the international market. The percentage of internationally supplied sugar is expected to increase from 40% and valuable markets such as the EU are showing high potential due to good prices being achieved. According to the 2012 Annual report, market conditions were considered by strong demand from European importers who recognise Malawi's quality standards and ability to deliver contracted consignments on time. (Annual Malawi reports 8).

Competitive Elements:

Identifying the competitive elements of Illovo Malawi will show that it has two main elements that prove to also be two valuable advantages over their rivals.

The quality and standards of the products that are manufactured by Illovo Malawi are second to none, as mentioned above; it is one of the main factors upon which the European customers look for and value. Due to the differences between quality standards in Africa which are lower than European and worldwide standards, Illovo can easily sell the highest quality goods within the European and north American market and obtain high prices while at the same time sell medium quality products which in the <https://assignbuster.com/the-competitive-elements-of-illovo-malawi-business-essay/>

African region are regarded as the top quality, it therefore puts them in a sort of win-win situation.

The second element that gives Illovo Malawi a competitive advantage is the logistics system it has. As mentioned above, European buyers value commitments more than anything else. Receiving their shipments on time is of utmost importance when they are competing in strong markets where time and money play the most crucial role. Abiding to their commitments is therefore the element that gives Illovo Malawi the advantage in this scenario.

Question 2:

Identify the stock of internally developed assets, resources and competences in the company of your choice. In your view, how do these compare with the company's most immediate (maximum 3) competitor firms in the industry? Do they or do they not allow your firm to achieve a sustainable competitive advantage, and in which areas?

Answer:

Illovo Sugar Malawi has various assets that include two large sugar mills in the northern and southern districts of Malawi. Along with the two high capacity sugar mills, they also own their own sugar plantations at both respective sites. According to the 2012 annual report for Illovo Sugar Malawi, their valuation of property, plant and machinery stands at 8.6 Billion Malawi Kwacha and their sugar plantations are valued at 10.1 Billion Malawi Kwacha. When we look at the total area that has been leased from the

government of Malawi for 99 years amounts to 34, 250 Hectares approximately.

When we analyse the resources of Illovo Sugar Malawi, we can split it and analyse it via financial, physical and human resources.

Financial resources:

Illovo Sugar Malawi is listed on the Malawi stock exchange and this plays a vital role when it comes to attracting investment or capital into the company. Apart from attracting investment, if Illovo were to increase production or output, they would require the financial resources to be able to meet that strategy. Financial resources therefore play an important role in aiding the overall strategy that the company may be implementing. If the strategy requires additional funds to be raised, Illovo Malawi would easily be able to raise the needed funds, simply due to the investment returns that current investors are receiving, it will seem like the most viable investment to new and potential investors. Therefore it can be said that the attractiveness of this particular market is high as can be seen from the continued year-on-year growth at Illovo Sugar Malawi.

Human resources:

Human resources play a vital role in any strategic decision that the company makes, since it is this very workforce that will endeavour to accomplish the strategy that it has set out to achieve. Human resources also identifies all the skills-base of a business, the skills it possesses through its workforce and whether or not they are sufficient enough to meet the strategy.

When it comes to analysing the human resources at Illovo Sugar Malawi, upon reading the profiles of the senior management from the annual report, it is easily noticed that experience is a key denominator amongst employees at Illovo. Illovo employees have vast knowledge and experience, that is absolutely vital to this industry and it is highly possessed at Illovo. It is these vital factors that allow Illovo Malawi to perform at its level best and this is shown via its continual growth and the financial profits it achieves.

Illovo also maintains a high business morale and reputation that it strives to maintain, as Africa's largest sugar producer it has to have an immense reputation that allows it to dominate markets and give it an edge over its competitors. Apart from this, employees at Illovo also possess vast amounts of experience when analysed. The experience varies from business through to manufacturing, refining, farming and other key tasks within the business. People within each sector will possess varied amounts of experience that help it add value within the entire business.

Illovo firmly believes in maintaining an employee development programme which will prove to be highly important in regards to the future sustainability of the business, it has therefore setup staff training programmes to further develop their technical skills. (Malawi report 8).

According to Prahalad and Hamel's work, they mention the following - Core competencies are "the glue that binds existing business. They are the engines for new business development"[8]. In regards to competency at Illovo, the first major achievement that is being accomplished is the quality of the products manufactured. High quality products will meet high quality

standards set by international regulatory authorities and Illovo Sugar Malawi is currently producing such products that continually meet the stringent requirements. It is this level of competence that attracts the right customers for its product; it therefore serves high profile customers who are willing to pay the price for value added high quality products manufactured by Illovo. The prices and profits therefore obtained from such customers help Illovo to grow year-on-year.

It is the above reasons that give Illovo an edge over its competitors, they strive to produce high quality products, which therefore give them increased revenues as compared to their immediate competitors, and this is also the reason as to why Illovo Malawi is the leading contributor to Illovo group's operating profits.

Illovo Sugar Malawi's two competitors are small firms that have recently set up in Malawi. They have sugarcane plantations of both 850 (planned 5000) and 200 hectares respectively. Liphasa Sugar Corporation, the first and direct competitor will likely become the number two producer of sugar in Malawi and with an export market already lined up to be supplied, they are awaiting final installations and plan to produce 90, 000 tons of sugar a year at full capacity, however upon analysing Illovo's operations, its highly doubtful that they will achieve that level at such an early stage as they will not have enough sugarcane. The second competitor - Mtalimanja Sugar Corporation have only 200 hectares of sugarcane and they are only a small producer, which also aims to support smallholder farmers. Mtalimanja has recently run into problems and they are awaiting engineers to fix their plant at the moment.

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Therefore, when we analyse the two direct competitors of Illovo Malawi, it is fair to say that Illovo is miles ahead in terms of production of sugarcane and sugar based products. They are fully capable of handling large volumes in both categories and that it would take a good number of years for their competitors to catch up to them.

However, this does not guarantee that there are not any threats towards Illovo, if their competitors produce high quality products they will find themselves competing for customers. However, for the current outlook, it is fair enough to say that Illovo still maintains the number one spot in the market and due to its experience and the strategies it sets out to achieve, it keeps itself ahead in the market.

Conclusion:

Upon further reading within the group report, Illovo group clearly outlines that their primary strategic objective is to improve earnings and remain as the market leader. Their secondary aims included increasing sugar production to 1.8 million tons, increase domestic market presence and increase revenues by sales to higher priced markets[9]. (main report 8). Increasing capacity and output at Illovo Malawi will help it to produce larger volumes which will help it serve higher priced markets better and obtain better prices and increase profits.

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