

Analysis and appraisal of primark's performances



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Growth and survival are very often the majors' objectives that guide businesses. Running a business is today and more than ever a risky venture because of the uncertainty of the environment and the strong competition that exist within markets. Organisations have to always come up with new strategies that will help them to achieve superior performances in order to stay in the competition or take competitive advantages. International organisations need therefore to strive more than the others to achieve high performances due to the globalisation effects. Last two years, achieving superior performances was not an easy task due to the economic crisis, leading businesses to be more concern about their survival rather than anything else. The retail sector in the UK was particularly affected by lower purchasing power of customers and many companies of the industry were fighting for their future. It was in this particular context of crisis that Primark one of the most recognise high street brand stand out, increasing their market share and achieving superior performance that made the headlines inside and outside the country.

What were the strategies behind these outstanding performances? The present report will critically analyse and appraise Primark performances and the strategies used in order to achieve them.

BACKGROUND

Founded four decades ago in Ireland, Primark (also branded as Penneys in the Ireland Republic) is a clothing retailer operating in the European continent. The company which is a subsidiary of Associated British Foods plc (ABF) which also owns grocery brands such as Twinning and Silver spoon

have an estimated total of 192 stores and operated in several European countries like the UK, Ireland, Spain, Germany, Netherlands, Portugal and Belgium. Since its creation, Primark come a long way to become as today one of the most favoured place to shop by women and men in the UK. The mission of the company quoted directly from ABF website can be extracted from this statement “ The mission of Primark is to supply quality clothing at prices perceived to offer real value”. Simply said, Primark mission is to make people look good at a lowest cost. This concept of value chain clothing has been one of the main drivers of Primark success over the decades. From its creation the company used a winning formula that is based on a competitive pricing model associated to a fast changing on the fashion pattern. The past decades saw an increase in number of high street brand that offer fashionable products adapted from the catwalk look at affordable prices and Primark was among those brands.

A shift of the consumers behaviours toward value lead Primark to increase the number of its store over the decades in order to adapt with the shoppers pattern. A significant increase of this growth has also been an increase of the size of the stores with the average size rising from 16, 000 sqft to 30, 000 sqft. The opening of a 70, 000 sqft store in a high profile place like Oxford Street boosted the Brand image as the UK leader of the value retailing. Also the significant amount invested by ABF in the opening of new stores and the extension of the existing ones helped Primark to achieve a massive transformation going from being a low price-brand with tertiary locations to become the leader of the value retailing in the UK. The recent downturn economic leading to consumers to be price conscious helped certainly the

company to continue its growth and to report an increase of 20% in the 2009 profit. However the company was also the centre of a scandal in 2008 concerning the use of children as workers in its factories in Asia as well as the exploitation of overseas workers. Some critics even said Primark were able to achieve outstanding financial performance partially because of above factors that helped them to keep their production costs as low as possible.

Literature Review – Rudolf

According to Michael Porter, strategy can be seen as “ moving from where you are, to where you want to be in the future-through sustainable competitive advantage” Grundy (2003). From his notion of strategy he clearly brings out the idea, that for a business to succeed and survive in any environment, it has to know its present environment before judging where it wishes to be in the future. But according to Mintzberg however suggests strategy is a “ pattern in a series of decisions or actions (Grundy, 2003) He stated that strategy must not be a formal plan, and this can be discovered intuitively. We can achieve a good strategy by looking at what had already happened, or what is currently happening or what is to happen in the future Grundy (2003). Several authors have been pondering on the issue of strategy.

According to some other writers in this field of study, states that there is nothing like studying strategy because if strategy can be studied then there is no need to pay huge salaries to top managers for their success since it can easily be studied and applied (Gerry et al, 2008). Strategy isn't easy because of varied notions. According to Classical school of study, good planning

makes you master the internal and external environment and our strategy should focus on the external environment of the organisation.

Evolutionists were quick to react to this notion of strategy by saying that the environment is too complex and unpredictable; we should rely on survival that is by bringing down cost because if cost is brought down all things being equal, the organisation will realise a net profit which will be to assure its survival. Processualist said strategy is a process of learning and adaptation, that each organisation has to learn gradually from its mistakes and adapt quickly to the ever changing environment (Paley, 2008). For an organisation to be successful in their environment, they must have a good mastery of their strategic process as shown below.

External

Analysis

Competitive positioning

Strategic

Options

Implementation

Learning and

Control

The strategic Process, (Grundy 2003)

Since being strategic starts from the external analysis, there are several tools used in the scanning of the external environment, the most widely used tool is the SWOT analysis introduced by Ansoff. Despite wide criticism from other writers of strategy like Prof. Cliff Bowman saying SWOT is inefficient and calls it “ Stupid Waste of time”, large organisations like Primark have successfully use it to scan it external environment. PEST being another environment scanning tool for businesses is highly recommended in scanning the larger environment (Grundy, 2003 page 10). When the external environment has been scanned thoroughly, we have to capitalise our strength and invest in our opportunities (Verbeke, 2009)

Competitive positioning should determine areas where an organisation wishes to capitalise our strength and invest. According to Kenichi Ohmae of the Mckinsey Co. to gain a competitive advantage in a business, you must deliver equivalent customer value to your target customers relative to your competitors but at lower cost Grundy (2003). In thinking about your competitive advantage, Michael porter presented a five force model in determining the competitive position in your market

He later on suggested in his book on corporate strategy that there exist a number of generic strategies. These generic strategies include differentiation, cost leadership (having the lowest costs) or focus (competing on a narrower area) (Harvard, 2000). It should be noted that many companies fail to keep and follow up a sustainable competitive advantage not because they are not able to differentiate or achieve a low cost positions, but they underestimate the effective delivery of customer value (Grundy 2003 pg 18).

Strategic options and decision making is central to strategy and the choice of the strategy in an important notion here. Businesses have to invest and capitalise their resources in areas of sustainability and feasibility. The strategic option grid can be used in choosing those areas that are less attractive. How attractive is our strategies on growth drivers, financial attractiveness, implementation difficulty, uncertainty and risk?

Implementing a strategy depends on the various schools. According to the Design school of (Ansoff, Porter, Hamel and Prahalad) they focus mostly on the external strategy while the Process theorists instead deliberate much on emergent strategy and on organisational factors.

When a strategy has been implemented and the learning and control process has blend the areas in which a business has to build it core competence.

According to the works of Hamel and Prahalad, core competence is a ground of skills which enables a business to compete, or give us a distinctive way of competing (Verbeke 2009 pg 84). It is not easy to identify competencies. For example,

Analysis of Primark

Primark core competencies are;

Low cost management and operational processes

Low prices which equals to the value

Low cost of advertisement.

Handling customers complaints

Dealing with customers as individuals

Primark's core business is focused on high street retailing, and the core products are clothing for all the family-women, men and children. With the identification of core business and products, core competencies are applied in these areas.

Business needs to start thinking of how it could shift into new competencies, new markets, technology or geographical domains so as to diversify its resources; this is what Ansoff called Diversification (Kotler and Keller, 2006). When a business goes across national boundaries that are global, global strategies must be adopted at this level. According to George Yip's when going global business should discriminate among the following drivers, market drivers, competitive drivers, cost drivers and government drivers (Grundy 2003 pg 140).

Customers all over the world are thirsty for new products that can now be made available universally, Theodore Levitt's propounded in his book on the globalisation of markets that advances in technology, communication and travel have change the nature of commerce and trade in all parts of the globe (Verbeke 2009. pg 243) Levitt believes that a majority of the world's consumers want the same thing, they want high quality, reliable products at low prices, he further pointed out that companies that put this new 'global reality' into practice will win the competitive battle against their rivals. Most businesses should be carried by globalisation (Grundy 2003, pg 180) since there is no big retail who can remain on home soil and just do well. Big

retailers have to take skills abroad, markets etc. and Primark is better placed to understand how to exploit its talents internationally.

Success of Primark I thought this section was going to be included in the Literature review Rudolf 18th june 2010.

Acquisitions: 1995 major one being the acquisition of 16 stores from BHS one-up added in the greater London area in the Uk biz. 1999 acquired 11 stores from the co-OP. Then relate to the YIP global theory and Ansoff diversification theory here.

Alliance with small production firms in Asia

Their core business of high street retailing and core products includes clothing and

Bargaining position vis-a-vis their suppliers. Their strong bargaining power helps to keep down prices and raise the margin. Bring Mike Porter here to justify the advantages of a strong bargaining power.

Strategy is that of low cost since they turn to equate value for money. Mike porter and one good reason for this strategy and why it is working for Primark in UK.

Competencies also depend on their suppliers and we can bring into place their strategy of JIT.

Competitive rivalry from the stores.... And we talk now of Mike porter on competitive rivalry on the five forces in other to gain a greater market share.

Competitive advantage depends on their brand name Primark their brand name noted on the high street as the lowest price, equating value for money, suppliers' linkage, sites and their advertisement strategy.

Internal and external performances

- Their management style
- Their suppliers
- marketing and promotion
- positioning of their stores
- Competitive disadvantage their case of CSR ie child labour.

Introduction – Mavis

According to Mintzberg et al (1995), there is an ever growing instability and competition faced by many organisations within the business environment, to survive within such an environment organisations therefore needs to perform effectively and efficiently compared to its competitors. The authors also mentions that, the many ways in which an organisation is seen as performing successfully compared to its competitors is its achievement of competitive advantage. In reference to this, Hill and Jones (2004: p. 4) also states that “ a company is said to have competitive advantage over its rivals when its profitability is greater than the average profitability for all firms in its industry”.

There is therefore the need for an organisation to implement strategies that will constantly help in acclimatising to the changing environment and not

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have a negative effect on its performance (Hitt et al, 2005: Boddy, 2002).

Strategies are developed and implemented by an organisation by looking at where they are, where they are going and how to get there (Naylor, 2004).

Background of Company

Established under the name Penneys in 1969 in Dublin and trading as

Primark in the United Kingdom, (thereafter UK). (Source: [http://www.primark.co.uk/page.aspx?pointerid=](http://www.primark.co.uk/page.aspx?pointerid=eb44df4565934edca627dac6ec12145a)

[eb44df4565934edca627dac6ec12145a](http://www.primark.co.uk/page.aspx?pointerid=eb44df4565934edca627dac6ec12145a)).

Primark is part of the Associated British Foods (ABF), a diversified international company, operating in food, ingredient and retailing. Operating within UK, Spain, Netherlands, Portugal,

Germany and the Republic of Ireland the retailing segment of ABF being

Primark employs over 27, 800 people. (Source: http://abfreports.co.uk/PDF-Files/ABF_Full_Report.pdf).

Literature Review

The definition of strategy according to Johnson and Scholes, (2002: p10) is “the direction and scope of an organisation over the long term, which achieves advantage for the organisation through its configuration of resources within a changing environment and to fulfil stakeholders expectations”. It “deals with both ends (what is to be achieved) and means (how it is to be achieved)” (Boddy (2002: p. 157). Hence strategy is a means of achieving the goals of an organisation.

Strategies

Describing the distinctive aim of an organisation, (Ireland and Hitt, 1992)

states that “an important part of this description indicates how a firm is

unique in its scope of operations and its product or service offerings” (p. 35).

An organisation’s mission statement states the *raison d’être* of an organisation, hence why it is operating, the type of business and the type of customers to satisfy (Hill and Jones, 2004), thus offering directions from the corporate to the functional level (Boddy, 2002).

“ Every organisation consists of at least one and usually many more products and services” as purported by Hannagan (2005: p. 150). Using Ansoff’s (1988) matrix of strategic directions an organisation can adopt below:

Product development – This involves the modification of or introduction of new product into a market that it already has an existence.

Diversification – Is the adoption of a completely new product into a new market, usually through acquisition or joint venture with businesses already in the intended industry, thus offers less risk (Hill and Jones, 2004).

Market development – This involves an organisation entering into a new market with an exist product.

Market penetration – Under this strategy, an organisation tries to increase its market shares within the same industry, using existing product, through differentiation of products and other marketing mix such as promotions (Hill and Jones, 2004).

(Source: Johnson et al, 2008).

In addressing the issue of how to compete, the key aim is to be competitive within the environment in which it operates (Naylor, 2004). The two major

ways of achieving competitive advantage at the business this level is the generic competitive strategies of cost leadership, focus and differentiation (Porter, 1980b, 1985).

Cost leadership

According to Porter (1980), this strategy is aimed by an organisation to be the low cost producer compared its competitors within its industry. This is only achievable if actions are made to ensure that create that allocates cost at a lower unit.

Differentiation

This strategy by an organisation is aimed at providing products and services that its customer would perceive as distinct or unique from that of its competitors. Achieving this is through high quality products and innovative product.

There are further strategies which aimed at contributing towards the main purpose of an organisation's existence. Hill and Jones (2004) identifies various ways, these are detailed below:

Efficiency – This achieved by being able to apply a lower cost to unit to a product. Through the use of research and development, just in time system as discussed in (Hill and Jones, 2004).

Innovation –

Customer responsiveness

Literature Review

Strategic options

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Value option

According to Porter (1980), the strategy of low cost or cost leadership by an organisation aims to be the low cost producer compared its competitors within its industry. Aaker (2005) suggests many ways of achieving cost reduction, namely no-frills products/services, operational efficiency, experience curve and economies of scale.

Main Body – NEED TO BUILD ON THIS USING PRIMARK’S REPORT

Strategy: has moved from low-price point to a leading value retailer in the UK (2009).

Uses a retail model – based on highly competitive pricing

Fast-changing fashion conscious product lines (These are achieved through adapting to changes in both the market environment and consumer behaviour

Good quality fashion at low prices – this is achieved through

Large purchases

Low advertising

Low overhead cost

Flat management structure – offers ability to quickly adjust or respond to changing market situations.

Excellent distribution capabilities

CRITICAL APPRAISAL OF THE STRATEGY OF AN INTERNATIONAL COMPANY WHICH HAS ACHIEVED SUPERIOR PERFORMANCE OVER THE LAST YEAR- A CASE STUDY OF PRIMARK STORES UK – Unoma

Introduction

Primark stores story has been one of continuing achievement based on a sole combination of fast fashion and lean operations.

The beginning

In June 1969, the first Penneys store was opened in Dublin, and within a year four more were added – all in the greater Dublin area.

In 1971, the first large store was opened in Cork, Dublin. By the end of the year, there were 11 more stores in Ireland and one in Northern Ireland.

Move into Great Britain.

By 1973, there were 18 stores in Ireland and Primark began trading in Great Britain with four out of town stores. The first UK high street stores were opened in 1974 at Derby and Bristol. Within the next 10 years, 18 stores were added in the UK and 9 in Ireland, making the total number of stores in UK and Ireland to 22 each.

In 1984 in Ireland, they purchased 5 Woolworth stores making this their first multiple acquisition.

From 1984 to 1994, a further 13 stores were added in UK and 12 in Ireland, bringing the total to 66 stores – 32 in the UK and 34 in Ireland. A major

flagship store was purchased in 1982 – 50000sq ft unit in Connell street Dublin as BHS exited Ireland.

Acquisitions

Primark had a milestone year in 1995 with the development of the uk business following the acquisition of the BHS one-up discount chain. This resulted in 16 stores been added to the uk business , most in greater London area and all of significant size.

The next major development occurred in 1999 with the acquisition of 11 stores from co-op including reading. The reading property after much refurbishment also facilitated the much needed relocation to the uk buying offices.

In 2000, C & A retreated from the uk . primark acquired 11 of their stores which brought store numbers to 108 , consisting of 75 in uk and 33 in Ireland.

In oct 2001, a 75000 sq ft store was opened in Manchester and conversion of 25000 sq ft of former stock room space has now increased the sales area of this store to 100000sq ft.

More flag ship stores and acquisitions

In 2001, a 40000sq ft store opened in blanchardstown, Dublin.

In 2002, 2 major stores were opened in Glasgow and Birmingham.

In the period 2004 -2005, 14 new stores were opened , adding over 400000 sq ft of retail space.

In 2005, 6 stores were acquired from " allders" 3 of which were opened in 2006.

In july 2005, the acquisition of little woods stores by ABF plc which comprised an estate of 120 premises was completed , of which 41 stores were transferred to primark.

Expansion into spain

In may 2006 , its first store in spain was opened – in plenilunio (Madrid) followed by a 2nd store in Murcia in September 2006.

On thur 5th april 2007, a 70000sq ft store was opened on london's oxford street. Primark Liverpool opened on wed, 12th sept 2007.

In nov 2007 , 2 further stores were opened in spain -jerez and in xanadu(Madrid).

In april 2008 , 3 stores were opened in spain – in bilbao, isiazul (Madrid) and Oviedo – followed by in june 2008 the opening of parquet corredor(Madrid).

In sept 2008 , primark opened in Zaragoza and in oct 2008 an additional 2 stores were opened in spain in Asturias and coruna .

Expansion into Netherlands , Portugal, germany and Belgium

Primark opened its first store in the Netherlands (Rotterdam) in dec 2008

In may 2009 , its first store in Portugal (Lisbon) and in germany (Bremen) were opened.

In nov 2009 , a 2nd primark store opened in germany(Frankfurt)

In dec 2009 , primark opened its first store in Belgium(liege)

Summary of number of stores trading and their location as 3rd dec 2009

Ireland – 38

Spain -14

Uk – 138

The Netherlands – 1

Portugal-2

Germany -2

Belgium – 1

Total -196

Primark specialises in value retailing. It s been noted that value retailing has grown hugely over the past decade. According to verdict research, it is estimated that value clothing retailers have increased their market share from 11% in 1998 to 25% in 2008. Primark has been in the vanguard of this trend to the extent that some commentators predict a long term shift in consumer behaviour towards value , which they've dubbed , the ' primark effect'

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Primark's established a winning formula using retail model based on highly competitive pricing and fast changing fashion conscious product lines.

Throughout its devt, it has demonstrated tenacious adherence to these principles while displaying considerable agility in adapting to changes in both the market environment and consumer behaviour.

This has been fuelled by growth in the numbers and purchasing power of middle income groups and in particular by a new affluence amongst the young who enjoy expressing themselves through fashion, music and leisure .

High fashion turnover has spurred frequency of shopping trips and higher than industry average sales per square foot. Moreover it has driven the footfall necessary to generate volume purchase in other categories within the stores such as footwear, lingerie and homeware.

Primark over the period has enjoyed a consistently growing share of growing sector. But there has been another dynamic which has driven the remarkable growth of the business. Since 2001, primark has grown its selling footprint from 1. 7m sq ft to 5. 9m sq t. A significant feature of this growth has been the increase in average store size over that period from 16000 sq ft to 30000 sqft.

Compared to the 1990 s new stores tend to be bigger than the average (the Manchester flagship store was extended to 136, 000sq ft last in 2007). The high profile of the 70000 sq ft oxford street store has helped affirm the brand as a leading value retailer in the uk.

To achieve this transformation, ABF has invested over £1bn on new stores, extensions to existing stores and new fit-outs since 2005. As a result, primark has transformed itself from its origin as a low price-point, tertiary located clothing retailer into a leading value retailer in the UK.

Although competition and change in consumption

In Feb 2010, strong growth at primark, prompted ABF (its parent company) to upgrade its profit forecast.

ABF said its expected profit before goodwill, amortisation and exceptional items in the six months to Feb 27 to show a substantial increase on the £275m reported in the corresponding period last year.

In terms of clothing style and prices, primark's rivals include; Next, M&S, H&M, Peacocks, French Connection.

As primark's profit soars, so its competitors have suffered. Primark's clothing pulls university students who want spanking fashions on a student budget.

Primark's appeal isn't only about its prices. Its secret ingredient is the catwalk. Lots of their clothing items have been influenced by the trends from the catwalk.

IV. Primark Case: Organisational Analysis – Yoyo

Corporate strategy is primarily about the choice of direction of the firm as a whole. In other words, this includes decisions regarding the flow of financial and other resources to and from a company's product lines and business units (Johnson et al, 2008)

In an extremely competitive market in which almost all UK retailers are struggling to maintain their sales against a slowdown in consumer purchasing power, Primark is doing remarkably well (Perry & Towers, 2009).

Primark has set itself a key objective to become the world's most successful retail group. In order to accomplish this, Primark has focused on various strategies among other Cost-leadership strategy, diversification and a good supply chain management.

Strategic Analysis

According to Body (2008: 22) Strategy is more concerned with coming to a decision of the type of businesses and organisations we should be in, where we want to be and how to go there.

However, Gareth (2008: 297) argues that “ In an uncertain changeable and competitive environment, managers must evaluate continually how products are meeting the costumers' needs, through systematic planning in order to find new strategies to improve”.

Cost-Leadership Strategy

According to Porter (1980b, 1985) the cost-leadership strategy has to do with the company's ability to gain market share by appealing to cost-conscious or price-sensitive customers. This can only be realized by applying the lowest prices in the target market segment, or at least by having the lowest price to value ratio. In order to offer the lowest price while still being able to make profits and/or a high return on investment, the company must be able to manoeuvre at a lower cost than its competitors.

The market segment targeted by Primark is the under “ 35 years” fashion rationale with the slogan “ Look good pay less”. Primark provides elegant outfits at very affordable prices (for example: jeans for £4 or tops for less than £2) and reasonable quality: in other words, a value for money strategy. In competitive strategy terms, Primark is pursuing a classic ‘ focus cost leadership’ strategy.

However the opponents of the cost leadership strategy point out that this strategy may have the inconvenience of reducing customer loyalty, as price-sensitive customers will turn away once a lower-priced substitute product is accessible in the marketplace. Grant and Blackwell (2005) state that a standing of a low cost leader may also result in a reputation for low quality; this may bring about issues for a company to rebrand itself or its products if it chooses to shift to a differentiation strategy in future.

Diversification and consolidation as a strategy

Diversification is among of the four key marketing strategies defined by the Product/Market Ansoff matrix.

Source: http://tutor2u.net/business/strategy/ansoff_matrix.htm

The concept of diversification, in the one hand, is a corporate strategy for a company. The main aim of this strategy is to boost profitability via greater sales volume gained from new products development and new markets entrance. Diversification can be implemented either at the corporate level or at the business unit level.

Ansoff pointed out that a diversification strategy stands apart from the other three generic strategies. “ The generic strategies are usually pursued with the same financial, technical, , and marketing resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities” (Ansoff Associates International, 2010).

Consolidation, in the other hand, is where firms strengthen and protect their current markets position with current products. Since the market situation is likely to be changing (e. g. through improved performance of competitors or new entrants) consolidation does not mean standing still (Johnson et al., 2008). Indeed, it may require considerable reshaping and innovation to improve the value of an organisation’s products or services. In turn, this will require attention to how an organisation’s resources and competences should be adapted and developed to maintain the competitive (Mintzberg et al, 2003).

As far as Primark is concerned, it has developed new markets since its debut in 1969. According to the Primark report in January 2010, the company has expanded rapidly and trades nowadays in 196 stores around Europe (Ireland 38, Spain 14, UK 138, the Netherlands 1, Portugal 2, Germany2 and Belgium 1). Further growth, upgrading and expansion are envisaged for the company in order to ensure that Primark stores are continuing to provide an exciting shopping environment.

Strategic Supply chain Management

Supply Chain Management can be defined as the coordination all of the interconnected operations of a company from its suppliers to its customers.

In its pursuit of a long lasting-lower costs, Primark identifies fashion trends and to seek out the most competitive suppliers internationally. “ The company uses computerised customs clearance (speed to market) and devoted warehousing and distribution facilities, such as the giant warehouse owned and run by the logistics company TNT but dedicated solely to Primark stock distribution. This one warehouse is centrally located for the whole UK market, near a junction of the M1 motorway and it houses 50% of Primark’s UK stock, receiving 30 lorry loads each day[...] Distribution systems and Computerised warehousing are linked to computerised daily sales and stock information (rapid restocking of fast-selling items) by size and colour for each item in every store to optimise turnover” (Primark report, 2005).