

Primark internal and external analysis



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There are a lot of internal and external factors which may influence the performance of Primark. Over recent years, this topic has come up as ‘the most asked question’ in Business and Economics lessons. Specifically, is it ‘ethical’ to buy low priced goods produced in poor countries? My personal answer is an emphatic ‘yes’. It’s hard to see how our refusal to open some markets to free trade – particularly in agriculture – helps the world’s poor.

But the debate seems to hinge on the rights, conditions and dignity of the producers. For this reason, retailers like Primark (who like Tesco find themselves on the front line of this debate because of their public profile) seek to anxiously protect their reputations as ‘ethical’ employers. Recently Primark has fired three Indian suppliers because they used child labour to finish goods.

The suppliers sub-contracted smaller firms, which were using child labour to carry out embroidery and sequin work. A Panorama special on Primark will be broadcast on BBC1 at 9pm on 23 June: during their six-month investigation, the BBC uncovered the evidence which they passed to Primark.

“The information provided by the BBC enabled us to identify that illegal sub-contracting had been taking place and to take action accordingly ... the sub-contracting involved home working and in some instances children were also found to be working at home. We take this lapse in standards very seriously indeed. Under no circumstances would Primark ever knowingly permit such activities, whether directly through its suppliers or through third party sub-contractors.”

According to Primark, the garments affected accounted for 0.04% of the retailers' worldwide sourcing. It currently has more than 170 stores and made a £200m profit in 2007 on total sales of more than £1.6bn.

Primark: An Overview

Primark Stores Limited is an Irish clothing retailer. Its stores are located in various regions like United Kingdom, Ireland, and Spain. Within this area of responsibility, Primark stores outnumbered other clothing retailer business, with one hundred sixty one stores overall distributed in three major regions: one hundred twenty-five in the United Kingdom, thirty-four in Ireland and eight in Spain. The company positions itself as marketing fashionable at cutthroat prices.

The original clothing store was established by Arthur Ryan and his collaborator Micaela Mitchell in Dublin Ireland in 1969. After various success in clothing business, great profits and gross income led them to open stores in local and regional areas. It acquired various premises in different business centers within its local and regional areas which eventually generate more profits and income.

Primark is known for selling clothes at the budget end of the market. Its success is based on sourcing supply, making clothes with simple designs and fabrics and targets young, fashion-conscious individuals ages 35 below, offering them simple yet high quality clothes and apparels.

Hence, these successes brought significant changes on Primark's retail business. The relevance of global trends and consumers' demands on

lifestyle made Primark Store Limited reinvent its business scheme and management structure.

Primark's management and business structure

As a famous clothing retail store, recently, Primark embarks in different retail products not only restricted on manufacturing clothes but also other related products such as apparels and accessories available to all human sizes.

Primark employs simple managerial operation on its stores structure. Each store has its own manager responsible in overseeing the status and business operations. With managers' inherent authority, they are given the power and control to manage the store within his/her point of responsibility. Moreover, in smaller or larger branches, assistant and deputy managers are assigned to control and manage the store. Within the store, there are different subdivided departments in which a manager is assigned like senior department managers and junior department managers who are in charge for individual departments.

Moreover, under management, there are supervisors in charge of staff on a sales floor, on different departments like stock room staff, customer service staff, customer service desk, cashiers who work on the tills, cash office staff and staff responsible to look after fitting rooms. This management and business structure posits a simple way of managing human labour force, however, simple it may seem, yet inevitably creates serious problems and issues if and when proper assessment of the structure will be undervalued.

Analysis on the internal and external environment of Primark retail industry

The Primark clothing retail industry is a member of Ethical Trading Initiative, a collaborative forum bringing together businesses to work on labour rights issues in their supply chains. In fact, Primark developed ethical strategy in order to promote labour rights issues within its organization. Certain guidelines and code of conduct must be defined in relation to the ethical implications of work to human labour rights. Primark, initiated and defined its ethical trade strategy in 2006, focusing on assessment of employees working conditions, factories operations' concerns and addressed necessary improvement. Primark's annual report of activity should be passed to the Ethical Trading Initiative Board.

Moreover, Primark stands to a principle that shared learning and collaboration is one of the most successful ways to achieve sustained positive progression with its supplier's factories. However, climate change within and outside Primark's environment changes as it faces the challenges posed by the global business market. Using PESTLE and SWOT analysis, let us examine the ins and outs environment of Primark's retail clothing industry.

The PESTLE analysis allows us to examine the external factors affecting the environment of an organization while SWOT analysis aids us to assess organization's internal strengths and weaknesses and further identify threats and opportunities external to its environment.

Hence, these methods are helpful for us to understand and underline positive and negative factors affecting the external and internal environment of an organization like Primark.

In assessing the political, social, and economic factors external to the environment of Primark, we must consider different issues. Primark's business operations are subject to government policies and regulations. The business firm should conform to the set of policies and regulations stipulated and enforced by the government and policy making body while conforming to the set of regulations and policies, the firm should assume social responsibility as demanded by the global consciousness. Nowadays, business sectors no longer busied themselves to produce bonds of profits and income but deeply involved in social programs to promote social awareness and equality. Cultural and social behaviors of different consumers are important to consider when establishing or venturing business in the global landscape.

Furthermore, economic, environment, laws, and technology are inseparable entities in which influence the business operations. The economic stability of certain region can contribute allot to the business condition of certain firm, like Primark. Technology on the other hand, brought a tremendous effect to the status and development of business operations and marketing programs. It generates new trends in a rapid movement, which if organizations are unaware will impede growth and development.

Hence, Primark's must constantly assess its strategy with consideration to its PESTLE as external factors that in one way or the other affects its internal and business operations.

Assessing the strengths, weaknesses, opportunities, and threats of Primark, we go back to its established management or business structure. The need for re-tracking the management or business structure is important in analyzing its SWOT. As to my knowledge upon my encounter with Primark's business operations, its strengths are gained in its simple, systematic and organized business structure, having assigned proper authorities to proper positions. Moreover, its recognition for valuing high quality of products and quality services with its customers garnered more strength to attract more people. On the other hand, Primark's weaknesses can be found in its way of managing people. Although, Primark is a member of Ethical Trade Initiative, study shows given different negative issues concerning its business operations and transactions like child labour, purports less value on ethical matters. Different issues were attacking Primark concerning exploitation and abuse on labour force, other environmental concerns, poor working conditions, and disvaluing workers' rights. Primark in different surveys was labelled as a fashion industry with oppressive regime. The primacy of autocratic and rigidity on standard structures can be a weakness as well as threats to the life of the company.

Since, it goes globally, opportunities are in wide array not only on the part of venturing into regions with much income and profit to gain but also an opportunity to share and provide quality products to fashion-conscious people with vogue to fashion lifestyle.

Conclusion

Given this analysis we come to realize that each organization has its own external and internal problems to handle. The process in which we enable to

identify and analyze such problems is by using proper management method of analysis like SWOT and PESTLE. The importance of these methods is squared to the importance of the business itself.

No. 2: discuss the various business strategies that firms can implement to take Advantage of different markets or trading blocks?

For this purpose Porter has proposed his generic strategies which are the best to implement, in my point of view, to take advantage of different markets. These strategies are given as below.

- Segmentation strategy
- Differentiation strategy
- Cost leadership strategy

Michael Porter has described a category scheme consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive advantage. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. Strategic scope is a demand-side dimension (Porter was originally an engineer, then an economist before he specialized in strategy) and looks at the size and composition of the market you intend to target. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In particular he identified two competencies that he felt were most important: product differentiation and product cost (efficiency).

He originally ranked each of the three dimensions (level of differentiation, relative product cost, and scope of target market) as either low, medium, or high, and juxtaposed them in a three dimensional matrix. That is, the <https://assignbuster.com/primark-internal-and-external-analysis/>

category scheme was displayed as a 3 by 3 by 3 cube. But most of the 27 combinations were not viable.

Porter's Generic Strategies

In his 1980 classic *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, Porter simplifies the scheme by reducing it down to the three best strategies. They are cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope.

Cost leadership strategy

This strategy involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive). To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. There are three main ways to achieve this.

The first approach is achieving a high asset turnover. In service industries, this may mean for example a restaurant that turns tables around very quickly, or an airline that turns around flights very fast. In manufacturing, it will involve production of high volumes of output. These approaches mean fixed costs are spread over a larger number of units of the product or service, resulting in a lower unit cost, i. e the firm hopes to take advantage of economies of scale and experience curve effects. For industrial firms, mass production becomes both a strategy and an end in itself. Higher levels

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of output both require and result in high market share, and create an entry barrier to potential competitors, who may be unable to achieve the scale necessary to match the firms low costs and prices.

The second dimension is achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products, offering basic no-frills products and limiting customization and personalization of service. Production costs are kept low by using fewer components, using standard components, and limiting the number of models produced to ensure larger production runs. Overheads are kept low by paying low wages, locating premises in low rent areas, establishing a cost-conscious culture, etc. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. This will include outsourcing, controlling production costs, increasing asset capacity utilization, and minimizing other costs including distribution, R&D and advertising. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.

A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available. A reputation as a cost leader may also result in a reputation for low quality, which may make it difficult for a firm to rebrand itself or its products if it chooses to shift to a differentiation strategy in future

Differentiation strategy

Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers, network, or customers service. Differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers. Buyers loyalty can also serve as an entry barrier-new firms must develop their own distinctive competence to differentiate their products in some way in order to compete successfully. Examples of the successful use of a differentiation strategy are Hero Honda, Asian Paints, HLL, Nike athletic shoes, Perstorp Byproducts, Apple Computer, and Mercedes-Benz automobiles.

A differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy. These could include patents or other Intellectual Property (IP), unique technical expertise (e. g. Apple's design skills or Pixar's animation prowess), talented personnel (e. g. a sports team's star players or a brokerage firm's star traders), or innovative processes. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors. This way, Chiquita was able to brand bananas, Starbucks could brand coffee, and Nike could

brand sneakers. Fashion brands rely heavily on this form of image differentiation.

Some research does suggest that a differentiation strategy is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier. A low-cost strategy is more likely, however, to generate increases in market share. This however, may result from a limited understanding of ‘ profits’. Differentiation strategies are indeed likely to result in higher gross and net profit margins due to the pricing power created by perceived uniqueness and high customer satisfaction. However, these higher prices will also likely result in lower sales volumes and lower asset turnovers. As such, the effects on Returns on Capital are likely to be neutral. As illustrated in the Dupont ratio therefore, a firm can achieve high profitability and Returns on Capital by being either a successful differentiator (with high margins and low volumes) or a successful cost leader (with low margins and high volumes). One strategy is not necessarily more profitable than the other.

Variants on the Differentiation Strategy

The shareholder value model holds that the timing of the use of specialized knowledge can create a differentiation advantage as long as the knowledge remains unique. This model suggests that customers buy products or services from an organization to have access to its unique knowledge. The advantage is static, rather than dynamic, because the purchase is a one-time event.

The unlimited resources model utilizes a large base of resources that allows an organization to outlast competitors by practicing a differentiation strategy. An organization with greater resources can manage risk and sustain losses more easily than one with fewer resources. This deep-pocket strategy provides a short-term advantage only. If a firm lacks the capacity for continual innovation, its competitive position will erode over time.

Criticisms of generic strategies

Several commentators have questioned the use of generic strategies claiming they lack specificity, lack flexibility, and are limiting.

In particular, Miller (1992) questions the notion of being “caught in the middle”. He claims that there is a viable middle ground between strategies. Many companies, for example, have entered a market as a niche player and gradually expanded. According to Baden-Fuller and Stopford (1992) the most successful companies are the ones that can resolve what they call “the dilemma of opposites”.

A popular post-Porter model was presented by W. Chan Kim and Renée Mauborgne in their 1999 Harvard Business Review article “Creating New Market Space”. In this article they described a “value innovation” model in which companies must look outside their present paradigms to find new value propositions. Their approach fundamentally goes against Porter’s concept that a firm must focus either on cost leadership or on differentiation. They later went on to publish their ideas in the book Blue Ocean Strategy.

Q. No. 3: analyse how the firms and industries are benefitted by globalization and the role technology has played?

Globalization, since World War II, is largely the result of planning by politicians to break down borders hampering trade to increase prosperity and interdependence thereby decreasing the chance of future war. Their work led to the Bretton Woods conference, an agreement by the world's leading politicians to lay down the framework for international commerce and finance, and the founding of several international institutions intended to oversee the processes of globalization.

These institutions include the International Bank for Reconstruction and Development (the World Bank), and the International Monetary Fund.

Globalization has been facilitated by advances in technology which have reduced the costs of trade, and trade negotiation rounds, originally under the auspices of the General Agreement on Tariffs and Trade (GATT), which led to a series of agreements to remove restrictions on free trade.

Since World War II, barriers to international trade have been considerably lowered through international agreements – GATT. Particular initiatives carried out as a result of GATT and the World Trade Organization (WTO), for which GATT is the foundation, have included:

Promotion of free trade:

- elimination of tariffs; creation of free trade zones with small or no tariffs
- Reduced transportation costs, especially resulting from development of containerization for ocean shipping.

- Reduction or elimination of capital controls
- Reduction, elimination, or harmonization of subsidies for local businesses
- Creation of subsidies for global corporations
- Harmonization of intellectual property laws across the majority of states, with more restrictions
- Supranational recognition of intellectual property restrictions (e. g. patents granted by China would be recognized in the United States)

Cultural globalization, driven by communication technology and the worldwide marketing of Western cultural industries, was understood at first as a process of homogenization, as the global domination of American culture at the expense of traditional diversity. However, a contrasting trend soon became evident in the emergence of movements protesting against globalization and giving new momentum to the defense of local uniqueness, individuality, and identity, but largely without success.[33]

The Uruguay Round (1986 to 1994)[34] led to a treaty to create the WTO to mediate trade disputes and set up a uniform platform of trading. Other bilateral and multilateral trade agreements, including sections of Europe's Maastricht Treaty and the North American Free Trade Agreement (NAFTA) have also been signed in pursuit of the goal of reducing tariffs and barriers to trade.

World exports rose from 8. 5% in 1970, to 16. 2% of total gross world product in 2001

Advantages of Globalization

Globalization means increasing the interdependence, connectivity and integration on a global level with respect to the social, cultural, political, technological, economic and ecological levels. People around the world are more connected to each other than ever before. Information and money flow quicker than ever. Products produced in one part of a country are available to the rest of the world. It is much easier for people to travel, communicate and do business internationally. This whole phenomenon has been called globalization. Spurred on in the past by merchants, explorers, colonialists and internationalists, globalization has in more recent times been increasing rapidly due to improvements in communications, information and transport technology. It has also been encouraged by trade liberalization and financial market deregulation. Globalization offers a higher standard of living for people in rich countries and is the only realistic route out of poverty for the world's poor. Pro-globalization groups e. g. World Trade Organization and the World Economic Forum believe that globalization helps to reduce poverty and increase living standards as well as encourage a better cultural understanding. Also, due to globalization, there can be international co-operation to solve environmental and social problems.

Technology has now created the possibility and even the likelihood of a global culture. The Internet, fax machines and satellites have swept away the old national cultural boundaries. Global entertainment companies now seem to shape the understandings and dreams of ordinary citizens, wherever they live. Globalization leads to better cultural understanding and tolerance. Because of improvements in travel, more and more people are

traveling to different countries, thereby spreading their culture to other parts of the world.

Advantages of Globalization

We have moved from a world where the big eat the small to a world where the fast eat the slow”, as observed by Klaus Schwab of the Davos World Economic Forum. All economic analysts must agree that the living standards of people have considerably improved through the market growth. With the development in technology and their introduction in the global markets, there is not only a steady increase in the demand for commodities but has also led to greater utilization. Investment sector is witnessing high infusions by more and more people connected to the world’s trade happenings with the help of computers. As per statistics, everyday more than \$1. 5 trillion is now swapped in the world’s currency markets and around one-fifth of products and services are generated per year are bought and sold.

Buyers of products and services in all nations comprise one huge group who gain from world trade for reasons encompassing opportunity charge, comparative benefit, economical to purchase than to produce, trade’s guidelines, stable business and alterations in consumption and production. Compared to others, consumers are likely to profit less from globalization.

Another factor which is often considered as a positive outcome of globalization is the lower inflation. This is because the market rivalry stops the businesses from increasing prices unless guaranteed by steady productivity. Technological advancement and productivity expansion are the

other benefits of globalization because since 1970s growing international rivalry has triggered the industries to improvise increasingly.

Goods and people are transported with more easiness and speed the possibility of war between the developed countries decreases free trade between countries increases global mass media connects all the people in the world as the cultural barriers reduce, the global village dream becomes more realistic there is a propagation of democratic ideals the interdependence of the nation-states increases as the liquidity of capital increases, developed countries can invest in developing ones the flexibility of corporations to operate across borders increases the communication between the individuals and corporations in the world increases environmental protection in developed countries increases

Effects of globalization

- Enhancement in the information flow between geographically remote locations
- The global common market has a freedom of exchange of goods and capital
- There is a broad access to a range of goods for consumers and companies worldwide production markets emerge
- Free circulation of people of different nations leads to social benefits
- Global environmental problems like cross-boundary pollution, over fishing on oceans, climate changes are solved by discussions
- More transborder data flow using communication satellites, the Internet, wireless telephones etc.

- International criminal courts and international justice movements are launched
- The standards applied globally like patents, copyright laws and world trade agreements increase
- Corporate, national and sub national borrowers have a better access to external finance
- Worldwide financial markets emerge
- Multiculturalism spreads as there is individual access to cultural diversity. This diversity decreases due to hybridization or assimilation
- International travel and tourism increases
- Worldwide sporting events like the Olympic Games and the FIFA World Cup are held
- Enhancement in worldwide fads and pop culture
- Local consumer products are exported to other countries
- Immigration between countries increases
- Cross-cultural contacts grow and cultural diffusion takes place
- There is an increase in the desire to use foreign ideas and products, adopt new practices and technologies and be a part of world culture
- Free trade zones are formed having less or no tariffs
- Due to development of containerization for ocean shipping, the transportation costs are reduced
- Subsidies for local businesses decrease
- Capital controls reduce or vanish
- There is supranational recognition of intellectual property restrictions i. e. patents authorized by one country are recognized in another

Advantages of globalization in the developing world

It is claimed that globalization increases the economic prosperity and opportunity in the developing world. The civil liberties are enhanced and there is a more efficient use of resources. All the countries involved in the free trade are at a profit. As a result, there are lower prices, more employment and a better standard of life in these developing nations. It is feared that some developing regions progress at the expense of other developed regions. However, such doubts are futile as globalization is a positive-sum chance in which the skills and technologies enable to increase the living standards throughout the world. Liberals look at globalization as an efficient tool to eliminate penury and allow the poor people a firm foothold in the global economy. In two decades from 1981 to 2001, the number of people surviving on \$1 or less per day decreased from 1.5 billion to 1.1 billion. Simultaneously, the world population also increased. Thus, the percentage of such people decreased from 40% to 20% in such developing countries