

## LOCAL BUSINESSES

31 JANUARY

### Lesson Description

In this lesson, we will:

- Revise strategies in response to challenges in business environments.
- Analyze types of business strategies and corporate social investment in South Africa
- Examine exam and general questions.

## Key Concepts

### What is a Strategy?

A **strategy** is a plan of action to achieve a goal and serves as an enterprise's overall plan of development.

### Formulating Strategies

The process of formulating a strategy involves four basic elements:

1. Environmental scanning leading to a SWOT analysis
2. Strategy planning
3. Strategy implementation
4. Evaluation and control

### Types of Strategies

#### Integration Strategies

*A strategy utilised in business when the need for an alliance, merger or takeover arises.*

- **Horizontal integration** - Amalgamation with or takeover of other businesses in the same field.  
E.g. Takeover of competitors with substitute and / or complimentary goods.  
This is a suitable strategy to utilise in the following situations:
  - Acquiring competitors to reduce the threat from the competition.
  - Acquiring activities that are substitutes for the business's products.
  - Acquiring activities dealing with complementary products.
- **Backward integration** - A form of vertical integration that combines a business with its suppliers in order to reduce the business's dependency on the supplier.  
E.g. A dairy combines with, or buys out a milk farm to reduce the risk associated with the supply and price of milk.
- **Vertical integration** - Involves an enterprise taking control over either its suppliers or distributors.  
This integration can either be forward or backward.
- **Forward integration** - Where the business amalgamates /combines with its distributors so as to gain control of the direct distribution of the products.  
E.g. A cattle farmer setting up his/her own butchery.

#### Intensive Strategies

*Intensive strategies are aimed at increasing sales and market share by using available resources.*

*The following are types of intensive strategies:*

- **Market penetration** - A growth strategy where the business focuses on selling existing products into existing markets. The following methods can be used to penetrate a market: Decrease in prices, increase of marketing personnel to sell more goods, more advertisements and promotions, etc.
- **Market development** - A growth strategy where the business aims to sell its existing products into new markets. The following methods can be used to develop a new market: Finding of new target markets abroad, exporting of stock, new / extra distribution channels, improvement of packaging material, different pricing policies to gain new consumers, etc.
- **Product development** - A growth strategy where the business aims to introduce new products into existing markets. The development of new products can be a very costly exercise.

### Diversification Strategies

*A growth strategy where a business markets new products in new markets. It is used to increase the sales and to ensure that there is a growth in a business. This strategy has a high risk, because the business finds itself in an unknown territory. The following are types of diversification strategies:*

- **Concentric diversification** - A growth strategy where the business adds new products or services which are related to existing products and which will appeal to new customers. E.g. The introduction of a DVD player which can record on its hard drive.
- **Horizontal diversification** - A growth strategy where the business adds new products or services that are unrelated to existing products, but which may appeal to existing customers. E.g. A ladies clothing boutique introducing jewellery.
- **Conglomerate diversification** - A growth strategy where the business adds new products or services that are unrelated to existing products, but which may appeal to new groups of customers. E.g. If a mining corporate starts diversifying into other unrelated lines such as property, finance, insurance, etc.

### Defensive Strategies

*These strategies are usually resorted to when the business is under severe pressure with very few options.*

- **Retrenchment** - Aimed at decreasing the costs by decreasing: The number of posts, the number of products or closing of certain departments, etc. It usually results in loss of skills and markets for the business.
- **Divestiture** – A business sells certain parts of the business that are not profitable, or it sells off assets which are not productive. It could involve a company which sells ownership by decreasing the number of shareholders.
- **Liquidation** - By selling the assets of the business so as to raise cash to pay the debtors, pay off the employees and close off the business. During liquidation, assets are usually sold for much less than book value which means that the business will lose out.

### Other Strategies

- **Replacing individuals** - Employing the best employees will help a business enterprise achieve its objectives. Employees need to be replaced when they:
  - do not fit into the business
  - are unable to cope
  - resign or retire
  - are promoted

- **Revising a business's mission** - As the business expands, it will be necessary to revise the mission to adapt to changing business environments.
- **Establishing or revising objectives**
- **Devising new policies**
- **Issuing stock to raise capital** - A company mainly issues stock/shares to raise capital in order to expand its operations.
- **Adding additional sales staff** - A business can employ additional sales staff in an effort to increase sales.
- **Allocating resources differently**
- **Developing new performance incentives** - Performance incentives can be a strategy to expand the business.

### What is Corporate Social Investment?

It is the money that businesses spend on the community to improve the standard of living of the community. The aim of corporate social investment is to contribute to sustainable economic development.

### Demonstration

Clip examining strategic planning regarding HIV  
[http://www.youtube.com/watch?v=UJ47SZ8K4\\_M](http://www.youtube.com/watch?v=UJ47SZ8K4_M)

## Questions

### Question 1

*(Adapted from Business Studies, November 2010, Final Exam)*

Corporate social investment has benefits (advantages) as well as challenges (disadvantages) for corporate businesses.

- Name TWO benefits of corporate social investment for a business.
- Name TWO challenges of corporate social investment for a business.

### Question 2

*(Adapted from Business studies for all, p. 11 Activity 2)*

Sharon was recently retrenched from a South African clothing factory where she had been employed as a fashion designer for 10 years. She wants to start her own small business and open a fashion boutique in the Durban Central Business District (CBD). She also plans to export her designs overseas. She asks a friend for advice because she is worried that many businesses have relocated from the CBD, and there seem to be high rates of unemployment and crime. Her friend advises her to open her shop in Umhlanga, an affluent, mixed residential and business area only 20 minutes from Durban. Umhlanga also offers good opportunities for growth and the crime rate is lower than in the Durban CBD. However, the rental on her shop will now be much higher.

Sharon and her new business are affected by different macro-environmental factors. Her retrenchment was a direct result of the economic and global factors. The high rate of unemployment and high interest rates are economic factors. The higher income of people living in Umhlanga and the depopulation of the CBD are socio-economic factors. The high crime rate is a factor of the social environment. If Sharon is successful and exports clothes to other countries, the international or global factor of the macroenvironment will also influence the success of her business.

- a.) What do you think are possible reasons that Sharon was retrenched from the

- clothing factory? Can you see the link between global, economic and social factors?
- What social and economic factors face Sharon if she sets up shop in the Durban CBD and if she sets up in Umhlanga?
  - What are the possible economic challenges she faces in exporting her clothing and how can she overcome them?
  - How could technological factors influence the success of her business?

### Question 3

(Adapted from *Business studies for all*, p. 14 Activity 3)

Read the following scenario, and then answer the questions which follow:

Although he is not a qualified lawyer, James has decided to start a new consultancy business, helping businesses in the retail hardware industry understand and comply with current labour law. James decides to carry out the following SWOT analysis to establish whether he will be successful. He came up with the following:

- **Strengths:** Able to give really good customer service, extensive knowledge of current labour legislation.
  - **Weaknesses:** No market presence or reputation, vulnerable if vital staff are sick or leave, cash flow will be unreliable in the early stages of the business, needs more money for effective marketing.
  - **Opportunities:** This business sector is expanding, with good prospects of success, knows many people in business who need his help, competitors have been slow to adopt the latest computer technologies.
  - **Threats:** A small change in focus of a large competitor might wipe out any market position achieved. Legislation can change rapidly, so must keep abreast of any changes.
- Explain how James should proceed to overcome his weaknesses.
  - Explain how James can minimise the effect of the threats to his business.
  - What suggestions do you have for James to market his business?
  - James is not a lawyer – is this a strength, weakness, opportunity or threat? Explain your answer.
  - How will James scan the environment? Give actual examples if possible.

## Links

### Previous Exam Paper:

<http://www.education.gov.za/LinkClick.aspx?fileticket=J%2fMdkJzIsrU%3d&tabid=511&mid=1435>

### Notes (Strategies):

[http://www.mindset.co.za/resources/0000068537/0000161254/0000164910/BS%20Gr%2012%20Session%201%20LN%20\(Strat%20in%20Bus%20Environ\)2011%20rev.pdf](http://www.mindset.co.za/resources/0000068537/0000161254/0000164910/BS%20Gr%2012%20Session%201%20LN%20(Strat%20in%20Bus%20Environ)2011%20rev.pdf)

### Notes (CSI):

[http://www.mindset.co.za/resources/0000068538/0000161255/0000164911/BS%20Gr%2012%20Session%202%20LN%20\(Corpo%20Citizenship\)%202011%20rev.pdf](http://www.mindset.co.za/resources/0000068538/0000161255/0000164911/BS%20Gr%2012%20Session%202%20LN%20(Corpo%20Citizenship)%202011%20rev.pdf)