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Strategic Management for SMEs

Assignment 1

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Abstract

Businesses come in many sizes, we are very well acquainted with the likes of Google and Samsung who employ thousands of people across a range of departments. However, businesses can also be much smaller in nature – some businesses can also be a one person operation working from their bedroom (which happens to be the case of Facebook).

In this report however we will be focusing on the businesses that lay in middle of the scale – the Small to Medium Enterprises (SMEs).

According to Beaver (Beaver, 2014) approximately 95% of the businesses within the United Kingdom fall under the category of Small to Medium Enterprises while employing approximately 40% of the countries work force.

Due to their numbers SMEs add incredible value to the national economy, however unfortunately a portion of the SMEs also face great hardship in managing their business. A study by <<>> found that some 50% of the new starts-ups in the SME category fail to maintain their position in the market for any longer than a year and face bankruptcy.

The proposal to reverse this trend of failure is to provide better management, in particular strategic management to SMEs.

In this report we will look into how this can be achieved using conventional knowledge and using the old retail shop I used to work as an example.

The company that I'll use as example

I used to work at a wholesale textile shop. The total employee count including all the shop floor staff, management, accounting, logistics and delivery staff was approximately 40 employees in total. By most accounts this falls nicely in the boundary between a small and a medium sized company.

It was quite particular in the sense that the owners did not have a proper company name or logo for it. However, in that business environment naming wholesale stores was not really the norm and as such most people referred to it by its shop number, sixteen.

The company sold clothing items and related accessories such as belts, bags, etc to high street retailers. The business was focused on selling in bulk quantities with the aim of being the wholesaler of choice for retailers who had sufficient storage for large purchases – these large bulk purchases allowed the retailer to sell the goods at lower price and the quantity of sale would cover any losses from unsold stock.

To meet this aim the management would source their own goods from all over the world, always in the lookout for the garments factory that was offering the best discount on large buys.

The company was family run and the owners did not have a defined set of vision, mission and values. But having worked there for some time I could argue these were the organisational culture:

Vision – Be the go-to supplier for the local market of high street retailers

Mission – Provide the most profitable pricing for themselves and their clients

Values – The owners valued employees that were pragmatic in getting the job done

Strategy in business

Before moving further into the report lets that by making a broad definition of what strategy in a business sense actually is – and here is where we stumble on our first problem: there isn't a good definition of strategy.

Throughout history many scholars have tried to provide an answer to this and these. The scholars often having their own independent attempts, have lead to a degree of divergence in the definition.

In the work by Vrandenburger (Brandenburger, 2006), he looked at a variety of definitions and studies from the past and came to the conclusions that, broadly speaking strategy can be states as the list of activities than an organisation can execute to increase value for its stakeholders. Possible activities can be innovating new ideas, design and products, expanding into new markets, or taking over competitor businesses.

A critical analysis of a business strategy

The strategy an organisation choses to implement is very important to its success. However, an organisations strategy can often be implemented at different levels. According to Beard (Beard, 2017), the two categories most commonly used to subdivide a strategy are Business Level Strategy and Corporate Level Strategy.

The ideal level for strategy depends on the particular conditions of the organisation. Lets now briefly explore what each of these sub-categories refer to.

Business level strategy

A business strategy focuses on the customer first as it aims to analyse the market first, identity possible customer needs and areas of strong growth potential and then introduce a product or service that aims to solve that niche. As discussed by Roth (Roth, 2002), a business strategy produces value for the organisation and increases profits by addressing existing conditions.

If business level strategy is successfully managed it can provide a boost in competitiveness of the organisation. Research conducted by Porter (Porter, 1989) concluded that good business level strategy can be achieved by focusing on some key points such as cost leadership and focus, differentiation and differentiation focus.

However, the downside of this kind of strategy is that its focus is very narrow, being limited only the clients right that are currently visible to the company. This type of strategy may face difficulties when faced with disruptive competition. There are many examples throughout recent history of initially very successful companies that did exactly this, but as soon new technology was introduced they faced great hardship and were eventually competed out of the market. Examples of companies that followed this route unsuccessfully include the likes of Kodak (a photography company focusing on film photography that was taken over when digital cameras came out; IBM that kept focusing on their business to business centred strategy and thus failing to compete in the hugely lucrative market of home computers.

Corporate level strategy

Unlike a Business level strategy that focuses only on a narrow range of stimulus to make key decisions, a corporate level strategy allows the many levels throughout the organisation to contribute to the strategy. According to Bowman (Bowman, 2003) the main benefit of this kind of thinking is that it allows to drawn in the knowledge from all across the organisation and identify risks and opportunities

that may be happening in the near future but that narrow gaze on the current customers alone wouldn't otherwise show.

Using a top to bottom approach that corporate level strategy offers, managers can define the market and investigate all the important factors affecting it. And as mentioned, they can also use their own intuition on what may happen with the market if disruptive technologies are introduced.

Shop number 16s business strategy

Overall narrow business strategy and lack of broader vision

The owners of the store were largely of an older generation and perhaps this to some extent affected their approach to strategy for managing their business. Generally they were very weary of changes, specially in the technology sector.

This was reflected on the way they conducted market research as they relied almost entirely on the word of mouth from the customer who were coming into their store to decide what new stock to order in.

The issue with this approach to formulating a strategy was that it didn't allow for focus in any key area, as every other week customer would have a different opinion to state. After reading the work of Porter (Porter, 1989) it seems to me the management should had focused on cost – it was said that low cost was the objective of the company, but this was rarely systematically implemented or enhanced. Eg: including as part of the strategy to make deals with suppliers to achieve even lower prices.

Differentiation from the competitors products

As for differentiation of product, it was inexistent. The owners would purchase everything that was in demand at that time as a result customers knew that store number 16 was likely to have everything but no one would have any particular reason to keep coming to the store for a particular item.

Incurring penalties of a narrow business strategy

Another downside of doing things this locally was that by the time they got the next batch ordered in other wholesalers had already almost finished their first shipment which created a lag time that was maintained for as long as I worked there.

This lag time and their lack willingness to conduct market research in any other, faster, way, meant that when the recession of 2008 hit they were particularly hard hit. When subsequent seasons continually returned smaller profit margins the company had to lay off a few of the non-skilled and young employees.

Positioning strategically in the market

Work by Varadarajan (Varadarajan, 2010) suggests that a company to be successful in capturing and holding their position in a competitive market should take into consideration factors such as total value of the market, already present competitors, disruptive new start ups, etc, and select a niche a segment of the market and focus their resources to meet the needs of that niche segment.

If the management team had attempted to focus on a more concentrated aim such as providing the best value but only to the luxury retail segments they could have put their resources to specialize in that area. For example, they could come to special business agreements with some high end textile factory to be their exclusive supplier in exchange for a bulk discount.

These are some options that the management team could have undertaken to make the company more profitable.

Continued support to maintain the strategy updated

The real world markets are a dynamic environment as such it is unlikely that a fixed business strategy would see sustained success if were static and not account for changes in market conditions.

With this regard, it be said that the owners were updating their products in line with changes in the market, however at a suboptimal rate.

Being able to respond to changes quickly and efficiently should be one of the priorities of a good business strategy. As documented in work by Teece (Teece, 2016), many organisations that responded to a changing market to slowly lost out on new sources of revenue or were outright kicked out. Eg:

- Intel – late adoption to processors for smartphones
- Nokia – late adoption of disruptive smartphone software and apps

Critical analysis in hindsight

Looking back at how management handled the situation, it seems that using a corporate level strategy that to some extent included the opinions of the employees may have helped smoothen out some of these gaps as it would have provided a broader vision of the market.

If the managers had looked ideas on a corporate level perhaps it may had been suggested to hire an external market research organisation to conduct a detailed market analysis on current and future clothing and fashion trends and an accompanying cost analysis.

A critical analysis of internal and external forces affecting an organisation

An organisation can be affected by external environmental forces, in the context of a business organisation this can be factors such as economics depressions, changes in legislation, natural catastrophes, etc. An organisation can also just as much be affected by internal forces such as the work ethics of its employees, access to innovation and ideas, risk of employee turnover, etc. A good business strategy, according to Leonidou (Leonidou, 2017) should be capable of taking into account all such factors and provide with a workable solution for the management team.

Some common tools analysing these factors include SWOT and PESTLE analysis and we will use them on our chosen organisation to show some examples of this in action.

SWOT analysis

SWOT stands for strength, weakness, opportunity and threat and usually it is represented as an interlinked table that makes clearer the relationship between internal and external factors as shown in the following figure.



Figure 1 – a simplified SWOT schematic – adapted (Asghar

Sabbaghi, 2015)

SWOT applied to shop 16

The following table replicates the structure from Figure 1 to show a SWOT analysis can be used to link the internal and external factors that affect the business and draw conclusions from the information gathered.

Strengths • A major strength of the organisation was the many year of experience in the market its management and employees had acquired. • Given the moderately small size of the business employees were able to form close bonds with each other which helped make the work environment more enjoyable.	Weaknesses • The experience gained over the years made the management overconfident in their judgement. • Due to the close friendships present in the workplace when someone was let go from their jobs it didn't only affect that person, but also left negative environment across the staff.
Opportunities • After the many years the business had been active the management could have created branding strategy to retain customers • Having been in business for many years could have allowed the management to strike favourable deals with suppliers from they purchased regularly	Threats • The overconfidence of managers in their existing methods can become problematic in market conditions change drastically • With a tightknit community of employees there is the risk strike action if too many employees are laid off in short succession

Table 1 – example of a SWOT analysis

PESTLE analysis

While a SWOT analysis can be used to analyse both internal and external factors, a PESTLE analysis focuses more on external factors and how the business could cope with changes out of its control. The characters in PESTLE stand for political, economical, social, technological, legal and environmental.

PESTLE analysis applied to shop 16

Lets now have a look a simple PESTLE analysis of the factors that affected shop 16.

Political – the general political environment in Portugal has always been stable, elections and different political parties come and go but rarely are drastic changes implemented. This meant that the business did not have to worry too much about their imports or exports because it was unlikely Portugal would

go on trade war with any other nation – cost doing business internationally, buying good from China, etc, would remain constant and there was little need to worry about that.

Economical – before the sudden crash of stock market in 2008 there was little sign that something bad was coming and this left the company unprepared when suddenly over a period of months the amount sales being made dropped dramatically.

Social – even back then there was a small percentage of customers that would demand products sourced in a socially responsible manner as the stories of poor factory workers in developing countries were becoming more common. This put a bit more pressure on the management to be able to verify where their goods were actually coming from.

Technological – Starting in mid 2000s there was a gradual shift to online commerce as people become more familiar and comfortable with the internet. This would eventually have an economically negative impact on the high street shops that the wholesalers targeted. Given that the wholesale infrastructure allowed for easy storage of a large number of goods and they had a logistics team employed the management team if they reacted appropriately could have increased the business significantly.

Legal – Portugal being part of EU could use sells their goods to all countries within the EU under the same laws. This made the accounting teams job a lot easier as they did not have to keep up with very different taxation codes in all those countries.

Environmental – The consumer drive for environmentally sustainable good was not as strong as it is today back then, but still occasionally some high street retailers would produce advertisement campaigns focusing on ecological sustainability in clothing fashion.

Analysis of stakeholder's expectations and how to meet them

In the previous years we learned in class about stakeholders and their importance to business and it was said that they are the main driving force behind a business. A brief summary of the main topics from last year would have define stakeholder using the as the people who will be affected by the organisation and the stakeholders with a large amount of control over the organisation are called the key stakeholders as summarised in the lecture notes and further corroborated in work done by Svendsen (Svendsen, 1998).

What do key stakeholders expect from a business they control?

In the context of a business the key stakeholders can be considered those who make a profit when the business makes a profit, such as the owners, investors, senior management staff who bought stocks in the business, etc.

The expectation of these individuals is to see a growing positive return from their monetary and time investment in the company. In the case of investors it is very important to satisfy their expectations to a good standard because as noted by Mercer (Mercer, 2004), when an organisation fails to provide a good return on investment, investors can very simply accept the losses incurred so far and move their remaining capital to another organisation and perhaps buy shares of the first organisations competitors. This would be double blow to any organisation as they not only their stock value but their competitor directly increases their stock value.

Employees who do not own stocks in the company and the other businesses who serve supplier, are also stakeholders. However, they are considered either primary or secondary stakeholders. When a stakeholder has some control over the organisation, they are considered primary. When they have

very little or no control over the organisation but are still affected by the decisions and actions of the organisation, they are considered secondary stakeholders.

Stakeholder expectations at shop 16

The key stakeholders were the owners and because they kept it as a family run business, there was no opportunity for senior employees to become shareholders in the company. The general goal of the owners was to increase and maintain a steady growth throughout the years. They expected the business to be successful on the long run instead of short fast growth periods.

However, this approach to organisational strategy often clashed with the senior managers who after having seen other companies jump on the online retail market worried that their slow but constant growth model may lead to a slow breakdown. The managers despite not owning shares of the company, did still rely on the organisation for their salary and livelihood so it was also in their interest for the organisation to succeed as much as possible.

The low level employees did not have any official way of affecting the strategic direction in which the company went, but there was an understanding between the owners and the employees that the employees salaries were to be paid on time.

At all levels of the organisation, the internal stakeholders expectations was largely aligned: the growth and profitability of the business.

The suppliers for the shop were largely factories located in countries such Bangladesh and China and as such communication with them was somewhat limited due to language barriers. If the owners bought less from one factory than another, from what I recall, it didn't affect the factories that much. Also given that the owners had a large variety of factories to choose from, no particular factory had a strong influence on the shop. Given this, the suppliers in this situation were secondary stakeholders.

Lastly, the high street retailer who bought from the wholesale shop. Despite not gaining any financial benefit from the business doing well not, could be argued that they to were a key stakeholder in this situation. It was the customers demand that influenced the owner and managers decisions with regards to what goods to purchase. When the number of customers started to diminish during the 2008 recession, the business a whole was also greatly affected. Indirectly, the customers held almost as much influence over the business as the owners so they may be considered key stakeholders.

Proposal of a business strategy for sustainable growth

Given the analysis so far, I have made some recommendations based on my opinion on what could had resulted in a better business model for wholesale clothes shop number 16. I will now join all my opinions and propose a simple business strategy that could achieve sustained growth.

Overall strategy

The overall organisational culture was focused around a business level strategy. Despite the simplicity of supplying the customers demands without too many questions, it leaves an organisation vulnerable to external or internal forces that customer demand may fail to show – for this purpose many examples have been given: Kodak, Blackberry, Nokia, etc.

The organisational culture should be shifted towards a corporate level strategy that allows to pull in the experience and intuition of the senior staff.

Differentiating their product

As I mentioned earlier the common buying trend was to buy in bulk and try to sell large numbers at low prices to recover any losses. The issue with buying in bulk is that it becomes difficult to separate a particular item from the rest of the items the factory will send.

Buying less items, but choosing them closely and maintaining certain recognisable traits such as branding or style, can help differentiate the business from the competitors. This would allow to get long term partnership with high street retailers who specialize in those items of clothing and thus would gain a long term client and this provide sustainable growth.

Diversifying market

The business focused primarily on one customer group: high street retailers. However, if their customer base was more diversified, perhaps the inclusion of an online retail store that sells directly to end consumers, would be a great advantage.

It would allow to ride off external economic pressures more smoothly and without having to lay off employees.

Investing in partnerships

The business had been operating for some years when I was working and the managers had in that made many commercial contacts across the industry. These contacts can be used foster closer economic partnerships with suppliers and customers, for example setting up the right to exclusive buy from or sell to the organisation in return for a discount.

It has been shown in work done by Jacoby (Jacoby, 1978) that people tend to form loyalties after repeat beneficial transactions with their brand of choice. The same principle could be explored in a business to business setting, and if successful would lead to another source long term sustained revenue.

Concluding remarks

How a business formulates its strategy will have a large influence on how successful that business is. As we discussed during the report, there various approaches can be taken to create a successful strategy but they all rely on careful analysis of the internal and external factors affecting the organisation and position the organisations resources in a way to best respond to changes and make good use the resources available.

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