



Programme: BA Business Management

The Global Business Environment LCBB4005

Assessment 1
Environmental Analysis of the fashion industry

Module Lecturer Name:
Dr John-Paul Okeke

Petru Voloceai (2008342)
2008342@student.uwtsd.ac.uk

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Introduction

Environmental analysis helps a company to understand the effects of external and internal factors which can affect the business of the company (Calabrese *et al.*, 2020). It also helps to analyse the level of threat and opportunities for the company in the industry. This helps the company to make use of the resources available for the profit of the organization and reduce the chances of failures. This report is going to explain the effects of external and internal factors on the company Arcadia Group, through the use of models such as PESTEL, SWOT, Porter's forces and Value Chain Analysis. Furthermore, it is also going to explain how a few companies in the fashion industry has adapted to the changes in the business environment.

Arcadia Group is a British multinational retailing company, which has it's headquartered in London, the United Kingdom (arcadiagroup.co.uk, 2021). The company was founded by Sir Philip Green in 1903. The company has a total of 13,000 employees and generates annual revenue of 1818 million GBP ([statista.com](https://www.statista.com), 2021). The company has a primary listing on the London Stock Exchange.

Analysis of the impact of the pandemic and explanation of the major forces that have shaped the business environment of the fashion industry.

Porter's 5 Forces

Porter's Five Forces is a model that identifies and analyzes five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths. Five Forces analysis is frequently used to identify an industry's structure to determine corporate strategy. Porter's model can be applied to any segment of the economy to understand the level of competition within the industry and enhance a company's long-term profitability. The Five Forces model is named after Harvard Business School professor, Michael E. Porter.

- **Competitive Rivalry**

The fashion industry of the UK is a highly competitive industry and the company which produces better products of more advanced fashion and at a better price gets the superiority in the industry. There are several companies like Next, Debenhams, and H&M. These companies produce similar products like Arcadia group; therefore, it creates a high chance of the company Arcadia group to face losses in business due to the people switching to some other brands. The revenue generated by the company H&M in the year 2019 was found to be 24.3 billion U.S. dollars, which is also a huge figure and indicated that the company provides a strong competition to Arcadia group (statista.com, 2021). Thus, it can be concluded that the competitive rivalry in the fashion industry of the UK acts as a strong force for the company Arcadia Group.

- **Bargaining power of Customers**

The people of the UK are highly fashionable, and they like to maintain a good lifestyle and have a good taste in fashion as the country has a high level of disposable income of 35.33 thousand British pounds (statista.com, 2021). This makes the sales of the fashion industry companies more as the people love to buy new and fashionable clothes on a regular basis. However, the customers have the huge number of brands to choose from and this makes the companies face problems in meeting the various need of the customers. The cost of switching for these brands are very low since there are many companies in the fashion industry of the UK that have the similar products almost at the same price, which shows that the cost of switching is low, thus, the customers can easily deflect to some other brand in the fashion industry other than the Arcadia group. Therefore, it can be said that the bargaining power of the customers acts as a strong force for the company.

- **Bargaining power of Suppliers**

The company has several suppliers, who can be considered as the tier 1 manufacturers or the factories where the final product is produced (statista.com, 2020). The company, therefore, has several reliable suppliers for the raw materials of the company products, who can be considered as the tier 1 manufacturers (arcadiagroup.co.uk 2021). Therefore, if there are any problems faced by the company with any of the suppliers, then the company has many other suppliers to compensate for that. Therefore, the effect of change in suppliers act as an important, but temporary change for the company. Thus, it can be concluded that the bargaining power of the suppliers acts as a moderate force for Arcadia Group.

- **Threat of Substitution**

The fashion industry of the UK has many companies like Next, Debenhams and H&M, which produce similar products and services like that of the Arcadia group. Therefore, the customers get an opportunity to switch to some other brand easily due to the low cost of switching. Therefore, this can cause a reduction in the revenue generated by the company Arcadia Group. Thus, it can be concluded that the Threat of substitution acts as a strong force for the company Arcadia Group.

- **The threat of New entrants**

The risk of new entrants in the market, with better quality of products at a better price is always high. The fashion industry is all about the latest trends and fashion, and the brand which can satisfy the customers with the latest trends gets the superior position in the market. There has been many new companies of footwear and apparel which has joined in the fashion industry of the UK in the last 7 years and has made the revenue of the fashion industry to grow to 62.2 billion pounds (statista.com, 2021). Even if the risk of new entrants is high in the industry, yet the threat is not very high for arcadia group, because the company is already at a high position in the market, and any new entrant company will find it difficult to match to the level of the company. Therefore, the threat of new entrants acts as a moderate force for the company (arcadiagroup.co.uk, 2021).



Figure 1: Porter's Five Forces

(Source: disruptivnation.com, 2017)

Critically assessment of the opportunities and challenges that present to the key players in the fashion industry.

PESTEL Analysis

Political

- The political stability of the UK is 0.47 points (theglobaleconomy.com, 2020).
- The new policies such as the No-Trade policy due to the Brexit Movement.

The political stability of the country falling within the stable range makes the company conduct a stable business in the country without much hindrance. The no-trade policy between the countries of the UK and the EU has made it a bit difficult for the company to export its products across the border between the two countries. The revenues generated by the country since the Brexit movement in 2016 has seen a reduction of 1.2% (arcadiagroup.co.uk 2021).

Economic

- The GDP of the UK in 2019 was found to be 2829.11 USD Billion (tradingeconomics.com, 2020).
- The tax rates levied o the retail companies by the government of the UK is 20% (gov.uk, 2020).

The high GDP of the country of the UK suggests that the people of the country can access the high-priced clothes of the company as well. The tax rates of the country are also quite low, therefore, the company does not need to invest much money in paying the taxes to the government of the country.

Social

- The average disposable income of the people of the UK is 35.33 thousand British pounds (statista.com, 2021).
- The mortality rate of the UK due to the pandemic was found to be 16% of the total population of the country (statista.com, 2021).

The high average disposable income of the people of the country suggests that the people have much money in their pockets to avail the products of the company (arcadiagroup.co.uk, 2021). The high mortality rate of the population of the country had reduced the revenue generated by the company due to a significant reduction in the sales of the products. The revenue of the company in 2020 was 1.5% less than that in the year 2018 (statista.com, 2021).

Technological

- The country of the UK has made huge advancements in
- The increase in the online shopping of the country was 100 billion British pounds in 2020, due to the effect of the pandemic (bmj.com, 2020).

The country of the UK has faced high technological advancements in the last few years. This has helped the company to increase its revenue to a great extent. The attraction of the customers towards online shopping has helped even more to generate greater revenue. The revenue generated by the company in the year 2020 was found to be 137.4 million British pounds (statista.com, 2021).

Environmental

- Control of Pollution Act, 1974
- Control of Pollution Act 1974.

The company Arcadia Group ensures that they use sustainable forms of the manufacturing process, such that the products are eco-friendly and biodegradable. The company uses microfibers, WWF leather buyers and sustainable clothing material for this purpose (arcadiagroup.co.uk, 2021).

Legal

- National Minimum Wage Act, 1998.
- The Equality Act, 2010

The company ensures the employees of the company are happy and get proper minimum wage for their work. They also do not distinguish between the employees based on gender or age or cultural background.

SWOT

Strengths

- The company Arcadia group is one of the biggest clothing companies in the UK. The styles and trends followed by this brand are preferred by the customers and therefore, the company has been able to grow to a great extent in the past few years (arcadiagroup.co.uk, 2021).
- The employee relations within the company are very strong, which makes the business of the company to be carried out smoothly (arcadiagroup.co.uk, 2021).

Weakness

- The company sometimes find it difficult to come up with new ideas of designs for clothes and hence the customers become bored.
- The no-trade policy has affected the trade of the company greatly across the UK-EU cross border.

Opportunities

- The country UK is highly advanced in technology (great.gov.uk, 2021). Therefore, the company can use it to make an increase in the online transaction of goods during the pandemic.
- The company can make use of the sustainable features to impress its customers and cause an increase in sales of the company.

Threats

- There are many similar companies in the fashion industry like Arcadia Group such as H&M and Debenhams. Therefore, the customers get a wide range of companies to switch to.
- The introduction of a no-trade policy has made the export of goods difficult for the company, however, the introduction of any new policies shall make the trade even worse for the company (bakermckenzie.com, 2019).

Porters Value chain

Primary Activities

- **Inbound logistics-** The company Arcadia Group has many stores and outlets across the UK. It has around 2,500 outlets in the UK.
- **Operations-** The company has adapted to various types of operating models such as online, on stores and on a third-party retail partner, to tackle the effects of the pandemic.
- **Outbound logistics-** The company produces the goods and sends them to the various stores across the country to be sold to the customers.
- **Marketing and sales-** The company makes use of various modes to promote the products such as through advertisement on television and social media. The company ensures they reach maximum customers through their promotion.
- **Service-** The company provide the fastest delivery of goods to the customers. The company also gives the policy of free shipping over a particular amount of total. The satisfaction of the customers comes first for the company.

Support Activities

- **Firm Infrastructure-** Arcadia group has separate departments for handling the legal, financial and planning of the company. They also generate an annual report to keep a track of the progress of the company.
- **Human Resource Management-** The company follows good HRM policies, where all the employees are well-trained. They also respect the individuality of the employees and treats them equally, such that the employees are happy and work with their best efficiency.
- **Technology development-** The country of the UK is highly advanced in technology. Therefore, the company also uses this to improve and upgrade their services regularly.
- **Procurement-** Arcadia group has many suppliers, who can be considered as the tier 1 manufacturers. The company ensures that communication and transaction with the suppliers to maintain a good supply chain with them.

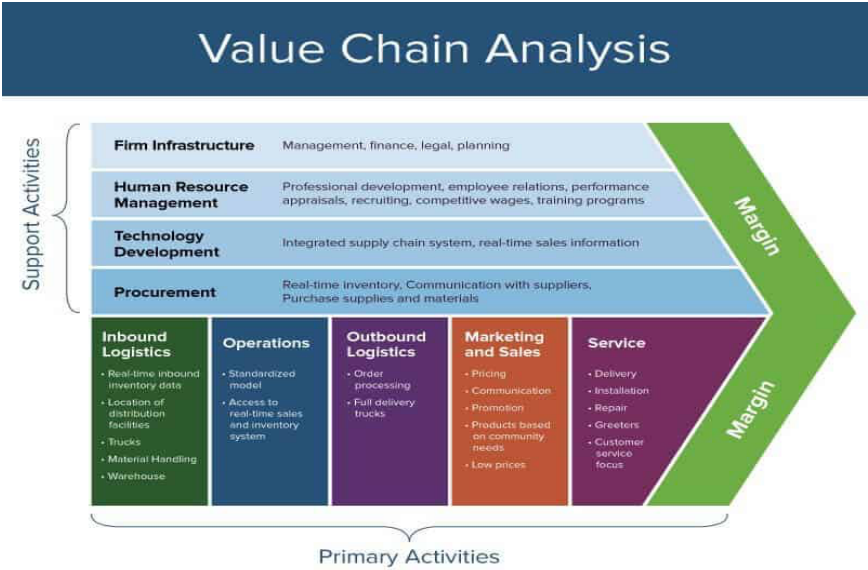


Figure 2: Porter's Value Chain
(Source: thestreet.com, 2019)

Explanation of why and how some firms have been able to adapt better than others to this changing business environment.

A few firms of the fashion industry have been able to adapt to the changing business environment due to the Covid-19 and the Brexit due to the following reasons:

- **Upgradation of company policies**
Companies like H&M have been able to upgrade the policies of the sales of the company, such as introducing more discounts, which made the customers keep purchasing from the firms, instead of having low-income supply (hm.com, 2021).
- **Improve online transaction**
These companies have also been able to modify and bring advancement in the online transaction of the goods, which helps the company to reach out to the maximum number of customers across the continent, irrespective of the containment barriers of the Covid. The profit made by the country of the UK in online transactions was 688.4 billion GBP (statista.com, 2021).
- **Early dispatch of goods**
These firms have been able to find an alternative to tackle the effect of the policies such as the No-trade policy of the Brexit movement, by ensuring that though the goods have to be stuck on the borders due to certain reasons, the goods reach the customers on time and no delay is incurred. This can be done by making sure that the products are dispatched early and shipped as fast as possible (hm.com, 2021)..

Conclusion

From this report, it can be concluded that environmental analysis helps a company to understand the effects of external and internal factors which can affect the business of the company. It also helps to analyse the level of threat and opportunities for the company in the industry. The various models such as the PESTEL and the SWOT analysis have helped to find the effects of the various changes in the business environment of the company due to Brexit and Covid-19. Porter's Five forces and Porter's value chain helps to find the effect of different threats in the country on the business and explains the primary and secondary activities of the company.

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