

SWOT Analysis



IB BUSINESS AND MANAGEMENT – PRE-RELEASED CASE STUDY 2015: SWOT ANALYSIS

Important! Bear in mind that the IB examiner is not looking for a nicely set out quadrant with brief bullet-pointed outlines of the identified Strengths, Weaknesses, Opportunities and Threats. It is also unlikely that an examination question will focus the SWOT on Alejandra herself, but rather her company 'LadyA Management Limited' and it will do so in a way to address the three strategic options presented by the business consultants. Thus, the SWOT should be used to address questions associated with strategic analysis leading to strategic choice and the implementation of a strategy.

Explain why each point identified is relevant to the company. Use these explanations to draw overall, **justified conclusions**. Make it impossible for the examiner to award you anything less than full marks for the **critical thinking** component of the mark scheme!

SWOT ANALYSIS FOR LADYA MANAGEMENT LIMITED (LAM) AS AT JANUARY 2015

STRENGTHS

- Diversified revenue streams boost revenues and mitigate risks associated with a decrease in demand for any one product.
- LadyA is popular across several different market segments in her target market: Hispanic community, young women and teenage girls. Again, this increases revenue and provides risk mitigation through diversification.
- Likely strong balance sheet based on her peak earnings after 2010 – LadyA Management Limited (LAM) is in a good financial position.
- The company has an established and strong cash flow position based on diversified revenue streams including: royalty payments, concert ticket sales, endorsements.
- The company can move fast if an investment opportunity presents. Company assets are likely to be relatively liquid based on the assumption that no significant property, plant or machinery is required in the industry.
- There is an established and effective management team in place.
- Alejandra has a maturing leadership style and better business acumen.
- She has a good agent in Ruth Liebermann providing good advice and direction in terms of brand identity and general mentoring.
- There is a strong and established LadyA brand identity that enjoys high brand recognition.
- She has a very established, popular and in-demand media personality that is instrumental in driving promotional opportunities.

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- There is an established line of cosmetics and perfume products promoted under the name of LadyA.
- Strong brand identity would facilitate product differentiation which leads to higher elasticity of demand for LadyA products and thus increases the company's power to set prices and have more control over their pricing decisions.
- The cosmetic and perfume products produced by an established Malaysian manufacturer, at relatively low cost enabling price competitiveness and/or greater profit margins on these products.
- Established distribution channel for LadyA cosmetic products through a US chain of department stores
- There is familiarity with both above-the-line and below-the-line promotional activities engaged in with her products. Product promotion strategies are more likely to be effective.
- There are social media strategies in place, including social networking websites with very popular Twitter, Instagram and Facebook followings.
- New communication technologies being used in promotion and communication. Wider audiences can be reached at lower cost.
- Paternalistic leadership style. If LadyA developed and adopted this style because she perceives her employees to be highly capable, she is likely nurturing and developing her staff.
- Established and successful family branding across product lines. Brand development expenses are likely to be low. New products will enjoy immediate brand recognition and the advantages that accrue.
- The company has adopted an effective and efficient organisational structure (Handy's Shamrock model) with core and peripheral employees (including low cost temporary staff) being well-defined and with a clear chain of command.
- Core staff are likely to be highly motivated and productive and have much autonomy and responsibility due to increased delegation in the latest restructuring.

WEAKNESSES

- An over-reliance on the LadyA brand. Product sales and revenue streams appear to be heavily reliant on the position of Alejandra being a major media star. As her star wanes, so too will the power of the company's brand.
- Relatively generic cosmetic and perfume products, likely without real innovation and being heavily reliant on brand name for product positioning and not actual quality.
- There are stated quality control issues at Malaysian manufacturer.
- Quality control systems may not be as effective as quality assurance systems.
- Economic downturns negatively affect revenues, and international markets such as Europe and Japan have had moribund economies for a long time depressing demand in these countries.
- The market segments are not diversified enough. There is no mention of overseas markets being successfully penetrated in the case study.
- Paternalistic leadership style. If LadyA has developed and adopted this style because she perceives her employees to be less than capable, then she is likely leading through guidance and control.
- The company has no channels of distribution in global markets. This will be a limiting factor in overseas revenues.
- Peripheral and temporary workers are unlikely to be especially motivated or productive in terms of their work for LadyA Management Limited (LAM).
- 60 per cent of outsourcing costs must be paid in advance, which impacts negatively on working capital and extends the length of the working capital cycle.

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- No clear or explicit corporate aims and objectives. There are company goals to focus employees to achieve. This could well negatively affect motivation and productivity levels.

OPPORTUNITIES

- Increasing size of Latin American population in the US – by 2030 the Hispanic population will grow to over 70 million and account for twenty per cent of the US population. This is a population that is relatively young compared to other ethnic demographics and therefore likely consume more of LadyA's music and products.
- Ability to raise additional finance (e.g., bank loans) based on company balance sheet and existing and projected cash flows will allow for investment opportunities.
- Interest bearing finance can be obtained at historically low interest rates as American monetary policy continues to be loose. More finance can be raised and increased gearing can increase company profitability with astute investment strategies.
- The American economy, her largest market, has been growing strongly as of late. Consumer incomes will be increasing as more people find employment and average wages begin to increase. Sales in general are likely to increase.
- Developing and expanding into new international markets (e.g., European and Asian countries).
- Increasing wealth and incomes in South American countries could drive demand for music and concert sales and other LadyA products.
- Licensing LadyA songs to music streaming services such as Pandora and Spotify.
- Increasing political stability in South American countries, with few exceptions (e.g., Venezuela). Holding concerts and promotional events in these countries will become less risky and political stability may accelerate economic growth and development in South American economies.
- Develop more products under the LadyA brand and develop global markets. Growth opportunities using product development, market development and diversification could all be considered (cf. Ansoff Matrix).
- Expand the product range with new product lines being introduced. A possibility is a clothing range, but also accessories such as LadyA shoes, LadyA handbags, and LadyA lingerie.
- New products could be distributed in the US through the same department stores selling her perfume and cosmetics.
- Developing new distribution channels for the international market.
- Developing an e-commerce distribution model (zero intermediary channel). This would boost profit margins on these products and/or allow for competitive pricing to increase sales volumes and market share.
- Use existing Malaysian producer or build on Malaysian networks to source manufacturers for new product lines.
- Reshore manufacturing back to the US to gain better control over the quality of products and incorporate a 'Made in the US' message in the marketing of these products. Costs may increase and a cost-benefit analysis should be made to see if this would increase sales in her major market. Qualitative and perhaps ethical factors should be factored in to the equation.
- The rebranding of LadyA to build a new brand identity based on the image of a strong, mature, determined and compassionate woman. This would allow for new revenue streams to be sought based on this new brand. She could associate herself with a charitable cause, to tackle issues such as malnutrition in developing countries, homelessness in big cities, or international trafficking of children.

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THREATS

- Low barriers to entry by competitors into the music industry being facilitated by technological advances (e.g. YouTube channels being easily established and music videos becoming less expensive to produce).
- Viral videos of competitors capturing market share.
- Falling traditional music sales decreasing income in probably the company's most important revenue stream.
- The age of LadyA and increased competition by younger musicians and stars will likely reduce company revenues sooner rather than later.
- The aging of her customers and potential customers may mean that LadyA's music is no longer as appealing as it once was. Sales revenues could decrease.
- Changes in tastes and preferences (e.g., manufactured pop is no longer perceived as being cool) in the LadyA target market may negatively impact demand if LadyA is unable to adjust.
- Exchange rate fluctuations between the Malaysian Ringgit and the US dollar. A relatively low US dollar will increase costs and reduce profitability. Although increased risk can be mitigated by having a dollar hedging strategy, and the opposite would apply if global markets were to be developed (a lower US dollar would increase the profitability of exported products).
- Political stability in Malaysia – currently ranks 78th in the democracy ranking and 37th in the world corruption rank.
- Music sharing technology becoming more user friendly or more socially acceptable, thus increasing the proportion of LadyA's music that can be illegally shared further reducing this revenue stream.
- Music labels demanding a greater share of revenues as global music sales decline.
- Monopoly positions being exploited by important companies central to LAM's business operations. For example, Google with search engine and internet advertising and Ticketek in ticketing concert sales.

CONCLUSION

The SWOT points to several key themes that place the company LAM at a strategic advantage. Although not necessarily explicitly stated, LAM is likely to have strong advantages in each of the four key business functions. In terms of finance, its cash flow position and balance sheet are likely to be strong. LadyA is at the peak of her fame and earnings potential. Strong positive cash flows and liquid cash assets would facilitate investment opportunities, especially in a low interest rate environment as the developed world economy is currently experiencing. The LadyA brand and established and saturated media presence are major strengths, as is the established distribution chain already in place. Much can be built upon these two marketing factors. After a less than auspicious beginning, the company's human resource management practices enable operational decisions to be implemented and core workers toward strategic objectives. The corporate structure, based on Handy's Shamrock Model is an effective one that brings motivational and productivity advantages in its core workers and cost savings in the peripheral and temporary employees. Operations management has strengths in production. After almost two decades, core music products are efficiently produced and there will be good understanding of the costs and revenues of business operations. There is an established and trusted outsourced manufacturer, instrumental in producing the line of cosmetics and perfumes. Existing manufacturing networks may assist in additional manufacturing for new product lines.

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However, despite these significant strengths, the company does have the Sword of Damocles hanging over it. The inevitable decline of the LadyA brand without a change in strategic direction as Alejandra's musical career declines. LAM is overly dependent on the LadyA brand. Compounding this is a lack of corporate objectives, it is unclear why this company exists and this lack of focus makes strategic decision-making difficult.

This is a company currently operating from a position of strength and it is my opinion that of each of the three options, Option 3 and the re-branding is the one that involves the most risk. A lower media profile would immediately impact the brand. The brand has huge value right now. LadyA risks a fast acceleration into brand oblivion if this strategy is pursued and would wipe millions off the current brand value. There are no corporate aims or objectives to suggest that charitable causes are the *raison d'être* for the company's existence. In fact, the diverse causes being considered, AND the other strategic options on the table point to this option being a rather superficial and phony strategic option.

Option 1 is poorly thought out. Alejandra is at the peak of her earnings power and her brand is the main strength of the company. As with Option 3, a move to South American markets would necessarily reduce her exposure in her main market – America. The name change would result in a new brand needing to be established and there is likely to be much confusion in the eyes of consumers in both new and existing markets. Establishing a successful brand is a costly and risky strategy, although the costs and risks are reduced if she pursues this option sooner rather than later, while she is still a well-known and respected name.

Option 2 builds upon the core strengths the company has across the four business functions, especially the strength of its finances, strong brand identity and channels of distribution, and an established outsourced manufacturer. More could be invested in the development of quality products and product innovation to provide a point of difference other than the LadyA logo. With this option, significant capital outlays would be required but LAM's balance sheet is strong and additional sales would follow, especially if good quality market research is conducted. The strong brand should enable good profit margins and strong sales in the near future. These additional revenues and extra profits could be used to maintain and develop the LadyA brand in the long term. Alejandra would, over time, see a change in her identity from that of a successful singer to becoming that of a successful business woman.

On the presented evidence, Option 2 would be my choice of strategic direction for LAM.

Source: IBBusinessandManagement.com