

P3 Business Analysis

June 2017

Question 1a

PESTAL stands for Political, Economic, Sociocultural, Technical, Environmental and Legal. Taking these in turn:

Political: The new government wants to make it mandatory for employees to pay 5% of their gross pay into a pension scheme of their choice. This will cause MFP to also pay 5% into the pension scheme. So this will increase labour costs and so profitability will be affected.

Sociocultural: There is a trend in society to value customer service. This will be beneficial to MFP as it ranks first arriving at supermarkets for this personal service. It can stress this in its advertising. There is also a trend against 'fat cat' management. MFP is a co-operative where employees are also shareholders. Again this should be stressed in advertising.

Legal: The recent extension of disability legislation will have an affect on MFP. It will have to ensure that it complies with this legislation. It will also have to comply with the Data Protection Act, making sure that all data is held securely and is available for scrutiny by the data subject.

Environmental: There are more and more green consumers. These green consumers will shop at MFP because its shops and supermarkets are owned by the people and they are energy efficient.

Also, local shops should mean less food rules, a concept attractive to green consumers. This is a strength of MFP.

Question 1b

Porter's five forces are: the bargaining power of customers. The bargaining power of suppliers, the threat of substitutes, the threat of new entrants and the competitive rivalry. Taking each of these in turn:

The bargaining power of customers: These are the individuals buying in the supermarket. Bargaining power, individually, is low, but as a group it is quite high because alternatives are easy to find and switching costs (from one supermarket to another) are very low.

The bargaining power of supplies: There are other companies that supply the supermarkets. This is very low, because supermarkets are so big they can dictate terms. When supplies are smaller and more numerous than their customers, their bargaining power is low. The switching costs from one supplier to another is also very low (for the supermarket), so reinforcing this lack of power.

The threat of new entrants should be quite low because so much capital has to be invested in infrastructure, marketing, property etc. to compete with the established supermarkets. However, recent, entries from abroad (Super 24/7 and Letto) seem to suggest that the Arborian market is still attractive to overseas-based supermarkets. So perhaps the threat should be assessed as medium, as these companies have entered the market and done very well.

Threats of substitute products: There are no substitute products.

Competitive rivalry: This is very high due to very low switching costs. However, the market is still growing (by 17% in the last five years) and so there is still room for growth – the market is not stagnant.

Overall, the Arborian market remains relatively attractive. MFP's revenues have increased 10% in the last five years which is almost as much as Hypo – the largest supermarket in Ole country Arboria is a wealthy country, its economy is booming and the market is growing – making it easier to compete!

Question 1c

- CSFs – refer to Critical Success Factors. There are key areas in the business where the business must succeed. In the context of MSF this could be customer service.
- KPIs – refer to Key Performance Indicators. These measure the CSFs. They should be quantifiable. For example, customer service could be measured by how satisfied customers are with the service they have received for example; the percentage of customers rating us (MSF) as excellent in a survey.
- CSFs and KPIs tend to reflect the overall mission of the company, but they make that mission more focussed and quantitative.
- Integrated reporting is much greater than just financial reporting, the usual focus of corporate performance. For example, the integrated report could include a section of customer service. It could re-state the KPI and state the performance objective associated with it.

For example: To score 90% or more customers rating us as excellent in a customer survey.

The integrated report could report the actual results (say, only 85%) and explain any measures being made to hit the target in the next reporting period.

Integrated reporting is an excellent way of communicating with stakeholders on a regular basis.