

Understanding significance of environment analysis with specific reference to WHSmith

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Abstract This paper provides an analysis of WHSmith demonstrating an understanding of the organisation and its environments as well as demonstrating your skills in strategic analysis and planning. This paper includes a brief background of WHSmith and its history. It also describes the analysis of internal and external environment of WHSmith and identifies the strategic challenges faced by WHSmith. Further, in this paper, strategic options available to WHSmith are identified, discussed and evaluated. This paper also provides recommendation for WHSmith.

Keywords — SWOT analysis, Value chain analysis, TWOS matrix, PESTEL analysis, SAFe.

I. INTRODUCTION

About WHSmith

Whsmith PLC was founded by H.W. Smith in year 1972 in London. The company is into diversified businesses like high street, airport, railway station, port, motor service station, hospital, magazines, stationery, newspaper, confectionery and entertainment products (Kilburn, 2006). Whsmith was the first to start retail chain and pioneer in creation of identifier of book like ISBN.

History of whsmith

In 1792, whsmith was founded by Mr Smith and his wife.

In 1812, after their death, when business was handled by their son, the firm was renamed to W.H.Smith & Son.

In 1848, diversified business into railway stations.

In 1850, started opening up ports.

In 1860, entered into publishing business.

In 1928, when Smith's grandson handled the business, the company went public.

In 1966, they introduced the unique 9 digit codes to reference book and called it SBN which was internationally accepted by year 1970.

In 1970, the firm expanded into retail business (Aguzzoni et al. 2017).

From 1979 to 1998, company entered into various joint ventures and acquisition to expand the business (Guy, 1999).

In 1984, Company entered into TV Channel business.

In 2006, company restructured its retail business as it was going into losses.

In 2011, company acquired Past Times.

From 2013 to 2017, company entered into various acquisition of stationary shops and also closure of greeting card shops.

Analysis of internal and external environment of whsmith

Internal environment analysis

The tools used to analyze the internal environment of whsmith are SWOT analysis and Porter's Value chain analysis.

II. SWOT ANALYSIS

STRENGTH

Whsmith has expertise in entering into new market i.e. Expansion and diversification

Successful record integration of mergers and acquisition or Joint Venture

Consistent training and development programs

Skilled work force

Strong and reliable distribution network

Consistency in quality service and automation of activities

Strong brand value (Phadernrod, Crowder and Wills, 2019)

Consistent good return on investment

WEAKNESS

Since, whsmith keep on expand and diversify, it needs more investment for technology.

High investment by whsmith as compared to its competitors and hence its debt burden also.

Company has not changed organizational structure with change in business model.

High employee turnover

OPPORTUNITIES

New environmental policies and demand for green products in market is an opportunity for whsmith (Gürel and Tat, 2017).

Lower prevailing interest rate is an opportunity for whsmith to take additional loan for investment

Decreasing transportation cost is an opportunity for whsmith to increase its profit

New taxation policies open new opportunity for whsmith to enter into business

THREATS

Rising business and rising number of employees and to tackle them is a threat

Rising cost of raw material impose threat to business

There is a threat from liability law to business

New environmental law is a threat to business

Porter's Value chain analysis

It describes the supportive and primary activity of a business.

III. PRIMARY ACTIVITIES OF WHSMITH

The key internal variables which directly influences the business of whsmith can be studied by its value chain analysis. It involves primary activities and support activities (Mudambi and Puck, 2016).

Primary activities

Inbound logistics – WH Smith maintains good relation with supplier, keep control on stock and there is an inhouse team for inventory audit.

Operations – WH Smith is into online retail business, self-service and store operations

Outbound logistics – It includes customer management policy, packaging and store location of company

Marketing and sales – WH Smith follow all to promote, advertise and sell its products and services.

Post-sale service – It provides very good after sale service to its customers

Support activities

Infrastructure – WH Smith has very large infrastructure and enjoy economies of scale over its competitors

Human Resource Management – It provides opportunities of training and development and career growth plan to its employees.

Technology development – It has now entered into online retail business, provides e-books also, etc

Procurement – WH Smith enjoys economies of scale in terms of procurement of material as it has various business through expansion, diversification and acquisitions

External environment Analysis of WH Smith

The tools used to explain the external environment of WH Smith are PESTEL and Porter's Five Force model

PESTEL Analysis

Political – whsmith is operating in dozens of countries and thus is exposed to the risk of political environment of those countries (Kara, 2018). The factor of political environment which influences business includes political stability, level of corruption, taxation policy, government intervention, extent to which FDI is allowed, etc.

Economic - whsmith is operating in dozens of countries and thus is exposed to the risk of economic environment of those countries. The factor of economic environment which influences business includes interest rate, inflation, purchasing power of consumer, foreign exchange rate, recession, boom, level of employment, availability of labor, etc.

Social and Cultural – The social factor which influences business are values, beliefs, customs, attitude, demographics, education level, interest, etc

Technological – It influences the way product is offered, distributed and produced. It also influences the cost of production of the good.

Environment – Different country have different norms related to environment and whsmith is operating in dozens of countries, thus have to follow them. Sometime it affects the profitability of whsmith also.

Legal – There are few legal laws which are common to countries and whsmith has to alter its strategy according to laws such as copyright, patents, labor law, discrimination law, health and safety law, anti-trust law, etc.

Porter's Five Force Model

The five factors are explained below –

Threats from new entrants – Threats from new entrants is high as new entrants are focusing on one business and providing quality goods and services at reduced cost (Lewis, 2017).

Bargaining power of suppliers – Bargaining power of suppliers is low as there are various suppliers of raw material in industry in which whsmith is operating.

Bargaining power of buyers – Bargaining power of buyers is high as there are various seller in industry which are

providing quality services at cheaper price and thus, creates pressure over whsmith to provide discounts to its consumer.

Threat from substitute – Threat from substitute is low as whsmith not only provide goods and services but it also provides very good after sales service.

Rivalry among existing competitors – whsmith is facing high competition in retail industry. There is price war among competing companies.

Identification discussion and evaluation of the future strategic options available to whsmith

IV. TOWS MATRIX

TWOS matrix is a tool to develop, assess, compare and decide the appropriate strategy for a business. It is a practical approach in which evaluation is done by identifying the fact how opportunities can be exploited using strengths of the company.

TWOS matrix is used as it is simple and generates various strategic options for an organization. It tells in a glance regarding the opportunities in front of organization and strength to exploit that opportunity.

TOWS Matrix

	Strengths (S)	Weakness(W)
Opportunities (O)	SO	WO
Threat (T)	ST	WT

SO

- Whsmith can increase its focus on its online business as with increasing use of internet and smart phones, online businesses are gaining popularity.
- Whsmith can use its strong brand value to enter into new business line which will generate more revenue. Whsmith can also take benefit of existing customer base.
- Whsmith can enter into joint venture or collaboration with its suppliers to manufacture compatible products.

WO

- Whsmith can start manufacturing and offering products with lower prices to attract consumer with low income group.
- Whsmith can expand its business by entering into new market, new business line or increase the range of existing products.
- Whsmith is facing a sales down in few of its products.

ST

- Whsmith can reduce its pressure from aggressive competition by increasing its product range and customer base.
- Whsmith can reduce its cost of production by maintaining good relations with suppliers and by setting up more assembling plant in developing countries.
- Whsmith should take advantage of social change brought by technology and can sell products online globally.

WT

- Whsmith should focus on manufacturing products and offering to consumer at lower price due to aggressive competition from similar low-priced products in market.
- Whsmith should take advantage of existing supply chain to sell more range of products. It will increase its profitability and will reduce cost of production.
- Whsmith has an opportunity to enter into untapped market with its already popular products.

Identification –

From this analysis, it was found that whsmith can use its strong brand value to enter into new business line which will generate more revenue. Whsmith can expand its business by entering into new market, new business line or increase the range of existing products. Additionally, whsmith can reduce its pressure from aggressive competition by increasing its product range and customer base. This will make whsmith a larger organization and then it will have less impact from new entrants which are offering products at cheaper cost and maintaining quality also.

Ansoff's Matrix

This tool is used to plan and analyze growth strategy for whsmith. According to this matrix, whsmith has four strategies to expand its business which are -

- Product Development – whsmith can use product development as its main strategy for its growth. Whsmith is already present in varied industry. It can now focus on providing new product in same industry or it can enter into new market with new product (Schawel and Billing, 2018). Under this strategy to expand the product range, whsmith has to invest a lot into its Research and Development. This strategy should be adopted only if the company has very good understanding of the existing market.

- **Market penetration** – Under this strategy, whsmith can increase market share in the current market by offering same products by putting more efforts on advertisement and marketing. Under this strategy, whsmith can promote its product on its websites, on external media channels, etc. This will encourage buyers to purchase more of whsmith products. The products offered by whsmith are quite differentiated and whsmith can apply 4Ps of marketing to attract more customers. There are various ways by which whsmith can use market penetration strategy such as it can decrease the prices of its existing products to attract more customers, it can increase promotional activities or it can enter into merger with existing player in same market place. In the last condition, all customers of that company will automatically become the customer of whsmith.
- **Market development** – This strategy involves selling existing products offered by company into new market. Under this strategy, whsmith can enter into market where it is not selling its products currently. It will increase the reach of whsmith and also its profitability. Under this strategy, whsmith need not to research to invent a new product but has to put marketing efforts to attract consumers to purchase its existing products. Whsmith will enter into new market only if the resources of the company allow it to enter into new market, if the new market is profitable, consumer have purchase power and are willing to purchase the products of the company. There are various ways by which whsmith can enter into new market such as catering the needs of new customer base, catering the needs of local market which was untouched or entering into new foreign market.
- **Diversification** – Under this strategy, whsmith can enter into a business line different from its current business. Diversification is of two types – diversification in related products and diversification in unrelated products. In case, whsmith go for diversification in related goods, it can use existing infrastructure and supply chain. In case, whsmith go for diversification in unrelated products, it has to incorporate expenses related to market analysis, establishment of manufacturing plant, developing a new supply chain. Hence, it is involving a lot of cost. Whsmith should go for diversification only if the profits are beyond cost involved.

Discussion –

Analyzing the strengths and weaknesses of whsmith, the suitable strategic option seems to be market development. This strategy involves selling existing products offered by company into new market. Thus, company can take advantage of its strong brand value and need not to invest money in research and new product development. Additionally, whsmith has an expertise in entering into new markets by joint ventures or mergers and acquisitions.

Safe

This model is used to check whether the strategic choice made is suitable, acceptable and feasible.

Safe	Meaning	Analysis
Suitability	It checks whether the strategy framed addresses the key constraints and opportunities (Berisha Qehaja, Kutllovci and Shiroka Pula, 2017).	Strategic options were identified by SWOT analysis, PESTEL analysis and Porters Five force model
Acceptability	It checks whether the strategy framed meets the expectations of stakeholders, matches with the risk and return levels	It can be measured by risk, return and reactions
Feasibility	It checks whether the strategy framed is practical enough to implement. Does the company have finances, skills and resources to implement the strategy	It involves technical, financial and marketing feasibility of strategy

Evaluation-

Suitability:

Whsmith has currently different strategic business units. Then it has divided the organizational structure on the basis of products and lastly on the basis of class of buyers. Strong supply chain, diversification and expansion are the strengths of whsmith. On the basis of SWOT analysis, PESTEL and Porters five force model, whsmith could identify the suitable strategic options to compete in the market. The strategic option suitable for whsmith is found to be market development. The strengths and opportunities make it suitable for whsmith to enter into new markets.

Acceptability:

The strategic options available with whsmith are it can use promotional strategies to increase the sales of its existing product in existing market, it can go for new product development and can sell it into either existing market or new market. It can go for diversification also. There is risk for whsmith to diversify as it has already diversified its business into various sector and hence there is risk of mismanagement, debt burden, loss of revenue and difficult

to manage. Thus, the least risk and possible profits are seemed to have for whsmith if it enters into new markets with its popular products (Rothaermel, 2016).

Feasibility:

In this era of global competition, whsmith is known worldwide for its diversified businesses such as stationery, books, newspaper, entertainment and magazines. Its few businesses have seen significant decrease in revenue due to competition and lower purchase power of consumer. Whsmith should focus its time, energy and capital in those business which are churning profits rather than on businesses which are going into losses. Additionally, instead of selling the products which it is manufacturing, whsmith should manufacture the products identifying the need of the consumer. Thus, it is feasible for whsmith to focus on those products which are already popular and sell them in new market.

Thus, the appropriate strategic option for whsmith is market development.

V. RECOMMENDATIONS

On the basis of analysis in present paper, it is found that whsmith strength is its strong brand value, strong supply chain, economies of scale and its quick entry into diversified businesses. Whsmith is facing the problem that it has diversified the business a lot but do not have proper organizational structure to support it, have a lot of debt burden and large number of employees to handle. Whsmith can handle this problem by focusing on its current business and by offering quality products and services which fulfils the need of the consumer. Whsmith has competitive edge over its competitor because of its vast business and wide market presence. Whsmith can take advantage of its existing infrastructure and supply chain to offer more products to its existing consumers. Whsmith has to invest in promotional strategies to fulfil this objective. It can now focus on providing new product in same industry or it can enter into new market with new product. Under this strategy to expand the product range, whsmith has to invest a lot into its Research and Development. This strategy should be adopted only if the company has very good understanding of the existing market. In case, whsmith go for diversification in unrelated products, it has to incorporate expenses related to market analysis, establishment of manufacturing plant, developing a new supply chain. Hence, it is involving a lot of cost. Whsmith should go for diversification only if the profits are beyond cost involved. The recommended strategy for whsmith is market development. Whsmith can sell existing products offered by company into new market. Under this strategy, whsmith can enter into market where it is not selling its products currently. It will increase the reach of whsmith and also its profitability. Under this strategy, whsmith need not to

research to invent a new product but has to put marketing efforts to attract consumers to purchase its existing products.

VI. CONCLUSION

Whsmith is successful in its business due to its vision of expanding and diversifying its business. It has timely entered into the markets which were evolving. It entered into various diversification, expansion, acquisition and mergers to become a larger organization it is today. Internal environment analysis of whsmith was done by SWOT analysis. SWOT analysis shows that whsmith strength is its strong brand presence, its weakness is overburden of debt and increased cost. It also shows that whsmith has opportunity in market to take advantage of new technology and it has also threat from new entrants in market which are offering quality products at cheaper prices. The external environment analysis of whsmith was done PESTEL analysis which shows that whsmith is operating in dozens of countries and it has to cope up with the changing environment of each country. The strategic options available with whsmith was analyzed using the tools such as TOWS matrix, Ansoff's matrix and safe. In this analysis, it was found that best strategy for whsmith is market development as its strength is its strong brand value and it readily enter into new markets through joint ventures and acquisitions. In the analysis, it was found that market develop strategy is suitable, acceptable and feasible for whsmith

VII. APPENDIX

S STRENGTHS	W WEAKNESSES	O OPPORTUNITIES	T THREATS
<ul style="list-style-type: none"> Things your company does well Qualities that separate you from your competitors Internal resources such as skilled, knowledgeable staff Tangible assets such as intellectual property, capital, proprietary technologies etc. 	<ul style="list-style-type: none"> Things your company lacks Things your competitors do better than you Resource limitations Unclear unique selling proposition 	<ul style="list-style-type: none"> Underserved markets for specific products Few competitors in your area Emerging need for your products or services Press/media coverage of your company 	<ul style="list-style-type: none"> Emerging competitors Changing regulatory environment Negative press/media coverage Changing customer attitudes toward your company

Figure 1 – SWOT Analysis of WHSmith

Source – dailymarketinghub.com



Figure 2 – PESTEL analysis of WHSmith

Source – Assignment Help

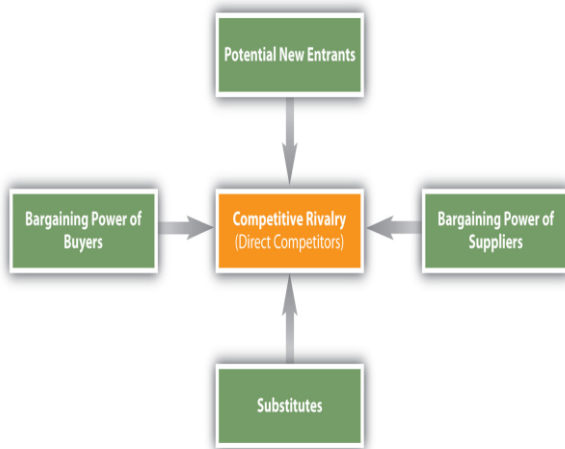


Figure 3- Porter's five force Model

Source – explain.atwebpages.com

TOWS MATRIX

INTERNAL FACTORS			
EXTERNAL FACTORS		Strengths (S)	Weaknesses (W)
	Opportunities (O)	Strengths/ Opportunities (SO)	Weaknesses/ Opportunities (WO)
	Threats (T)	Strengths/ Threats (ST)	Weaknesses/ Threats (WT)

Figure 4- TWOS Matrix for WHSmith Source – Tradebrains.com

		MARKET	
		Existing	New
PRODUCT	Existing	Market Penetration	Market Development
	New	Product Development	Diversification Related Unrelated

Figure 5- Ansoff's Matrix Source- RSSing.com



Figure 6 – SAFE for strategic choice for WHSmith

Source – slidegeeks.com

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