IB Business Management – Pre-Released Case Study May 2019

Radeki de Dovnic Manufacturing SWOT Analysis

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IB BUSINESS MANAGEMENT – PRE-RELEASED CASE STUDY MAY 2019: SWOT ANALYSIS

The internal strengths and weaknesses, and the external opportunities and threats are analysed and used to evaluate the RDM business model. A summary SWOT is provided in Table 1 below, and each point should then be comprehensively explained by the student.

Strengths (internal)

- Wealthy owner actively involved
- Talented and motivated employees
- Company finance
- Company profitability
- Product ideally suited to needs of target market
- Competitive price in key markets
- Strong CSR
- Mass customisation production processes

Weaknesses (internal)

- Non-independent CEO
- Marketing plan
- Distribution
- Expensive R&D programme
- Large capital expenditure
- No corporate strategy or strategic plan
- Lack of an operations plan
- Lack of a human resources plan
- Poor branding
- No vision or mission statement

Opportunities (external)

- New production facility
- Marketing to other consumer segments
- Diversify into new products
- Expand product range by establishing an aluminium water bottle division
- Technological improvements
- Partnership with healthcare providers
- Exporting
- Growth of key healthcare market

Threats (external)

- Recession in key markets
- Changes in technology
- Healthcare product regulation
- Security of supply chain
- Exchange rate volatility
- Price volatility of raw materials
- Current and future competitors in the market

Figure 1: RDM summary SWOT analysis

STRENGTHS (INTERNAL):

- **Owner actively involved**: Jan is a member of the Radeki de Dovnic family. He is actively involved in all aspects of the business (finance, operations, strategic planning, human resources, etc.), Jan has good knowledge and experience in running a successful company. Jan's democratic leadership style is perfectly suited to the highly-skilled skilled staff that RDM employs. ★★★★
- **Strong CSR**: This is expressed as strong ethics and ecological and economic sustainability. The goodwill of other stakeholder groups, resulting from socially responsible behaviour, could lead to better relations with employees, suppliers, customers and the local community. This benefits RDM's business and product image as firm and product will be associated with a green and socially responsible approach. This could become a major competitive advantage. It also assists RDM to attract the best motivated and efficient employees may become easier as many workers will prefer to work for and be associated with socially aware businesses. It will also generate goodwill among other stakeholder groups, resulting from socially responsible behaviour, could lead to better relations with employees, suppliers, customers and the local community. Higher long-term profitability should result from all the factors above. ★★★
- **Motivated employees**: RDM has a highly skilled, motivated and productive workforce. Its workforce is likely to be one of its core competitive advantages. Talent recruitment, development and retention will be made easier and less costly to the firm in such an environment. ★★★★★
- **Company finance**: RDM has been operating profitably for a long time. It has invested heavily in advanced technology (e.g., robotics) and has a highly capital-intensive production process. This means that RDM is likely to have a strong balance sheet with valuable fixed assets. These fixed assets could be used as security to finance new investment opportunities with long-term loan capital. ★★★
- **Company profitability**: RDM is a profitable company. Retained profits can be used to pursue growth and expansion opportunities, as well as provide cash reserves as a contingency for changes in the external environment (e.g., new competition or recession in key markets). Such reserves will allow RDM time to adjust to any such change. ★★★
- **Product ideally suited to needs of target market:** The healthcare products RDM currently manufacture may be less subject to such a cycle as design changes come with just about every order. Product innovation and modifications based on customer demand are excellent extension strategies in the product life cycle. ★★★★★
- **Competitive price in key markets:** Successfully customising healthcare products at a competitive price are key aspects of RDM's integrated marketing mix and generates good sales revenues in its current key markets. However, RDM is not price competitive outside of that 700 km radius. ★★★
- **Mass customisation production processes**: RDM's USP is probably based around the fact that customers can adapt products to their own specifications and order specific quantities that can be quickly fulfilled through RDM's mass customisation production process. Further, RDM's design and manufacturing process has also resulted in products being "cheaper to produce" and "more stable" [line 39]. ★★★★★

WEAKNESSES (INTERNAL):

- **Non-independent CEO**: There are advantages to RDM of having an independent board of directors/trustees. Stakeholders in a business rarely act without bias. Even when driven by what they believe are the best interests of the organisation, their opinions are informed by personal agendas and value systems. An independent CEO member can take a fresh, objective look at business challenges and opportunities, and offer advice that synthesises the perspectives of all parties while enabling the organisation to pursue short- and long-term business objectives.★
- **Marketing plan**: There is no marketing plan. In the marketing mix PLACE has issues as the firm's distribution costs are high, and in a cost-plus pricing system, such high variable costs inflate the price of the product and appears incongruent with PRICE. This limits RDM's geographic market area. ★★★★
- **Distribution:** Delivery costs are based on weight and location and is a substantial cost to the firm (and therefore to its customers). RDM can only be price competitive within a 700 km radius of its factory in the Czech Republic. It is a variable cost to the firm and as such needs to be factored into break-even analyses, cost-plus pricing, etc. ★★★★
- **Expensive R&D programme**: RDM is well positioned having adopted and developed such 21st Century technologies as AI, cloud computing and big data. However, the company must continue its R&D programmes to stay ahead of the competition. R&D programmes in Industry 4.0 will be a drain on RDM's cash position as the firm's cash is spent today and returns on R&D occur in the future. There are different R&D programmes that RDM could pursue and careful and considered analysis of each will be needed to produce the greatest success, as the firm cannot possibly run R&D programmes across the gamut of options. ★★
- **Large capital expenditure**: Robotics, heavy industrial machinery and new production facilities require huge capital outlays that cannot immediately be offset against RDM's tax liabilities, but over a period of years as a depreciation charge. RDM must have good, cost effective sources of finance to continue to invest in new plant and equipment and replace that which is worn and outdated. ★★★
- **No corporate strategy or strategic plan**: The importance of a corporate strategy hinges on its being an effective means to allocate a company's resources, establish business expectations and improve a company's competitive position, as well as increase shareholder value to something beyond the sum of its physical assets. Without such a plan it is unlikely that RDM will effectively allocate company resources, establish expectations (such a market share, profitability, new product launches), improve its competitive position and, ultimately, add shareholder value. A strategic plan could be produced by the senior management at RDM relatively quickly. ★★
- **Lack of an operations plan**: There are a number of operational strategies that have been suggested in the case study, including the separate water bottle manufacturing division (which will NEVER happen!) and the proposed new production facility (which has a lot of merit).However, without a formalised corporate strategic plan, we cannot assess whether either of these operations management strategies support corporate aims. Again, such a plan can be produced by the senior management at RDM relatively quickly. ★★

- **Lack of a human resources plan**: RDM operates in a high-tech environment and relies heavily on innovation to differentiate itself from competitors. The company requires top talent to maintain this competitive edge and pursue new opportunities and problem solve. Talent management is crucial for such a company, and as such, human resources must have a plan for attracting, developing and retaining its talented employees it relies so heavily on. Talent management is not just a simple human resource key term one will come across. It is also committed to hire, manage, develop, and retain the most talented and excellent employees in the industry. In fact, talent management plays an important role in the business strategy since it manages one of the important assets of the company – its people. That is why RDM should make the effort to effectively manage the employees to help them develop their skills and capabilities in order to retain them. Again, such a plan can be produced by the senior management at RDM relatively quickly. ★★
- **Poor branding**: Attempting to establish a weak brand or rebranding is often expensive. Increasing brand awareness and brand loyalty would be primary goals of promotional of the business. It can cost millions of dollars to attempt to create an effective brand image – and success cannot be guaranteed. ★★★★
- **No vision or mission statement**: These are now needed to set the company's strategic objectives. Such statements can be produced by the senior management at RDM relatively quickly. ★

OPPORTUNITIES (EXTERNAL):

- **Expand by investing in a new production facility**: Expanding RDM's capabilities in Industry 4.0 by opening a new production facility will increase its production flexibility and improve its productivity rates. RDM will be able to produce a greater product range and allow customers to make more design changes to the products they require. Sales should increase and per unit costs will fall. However, will such improvements in RDM's business model justify the massive upfront investment costs? ★★★★★
- **Marketing to other segments**: RDM has successfully trialled the production of customised aluminium drink bottles using existing plant and machinery. The possibility exists to set up a new division within RDM to diversify products that the firm can market. A diversification strategy is a practice where a firm enters an industry or market that is different from its core business. Reasons for diversification include (1) reducing risk of relying on only one or few income sources, (2) avoiding cyclical or seasonal fluctuations by producing goods or services with different demand cycles, (3) achieving a higher growth rate, and (4) countering a competitor by invading the competitor's core industry or market. ★★★★★
- **Diversify into new products**: Flexible and largely automated production processes would enable RDM to manufacture a wide range of possible products, diversifying the firm away from its healthcare products and reducing the risk the firm faces (e.g., reduced sales in a key market). This is a good opportunity to the firm; however, market research must be undertaken to find the right product or products that fit with the firm's corporate strategy. ★★★★★
- **Expand product range by establishing an aluminium water bottle division**: The two most common measures used in a portfolio analysis are market growth rates and relative market shares. If RDM were to manufacture aluminium water bottles the product would be positioned in the low market share-low market growth quadrant of the BCG matrix; i.e. the product would be a 'dog'. It is difficult to conceive that the market for aluminium water bottles would enjoy high rates of market growth, year on year. It is also difficult to believe that RDM could realistically capture significant market share from low cost Asian manufacturing companies. Thus, based on the relatively low margins and high volumes needed to break-even and limited scope for the growth of the market itself and RDM's share of the market, this product is highly unlikely to add value to the company. If a diversification strategy was to be pursued to meet growth and profitability objectives, then RDM should look to alternative products to manufacture and/or other businesses it could acquire. ★
- **Technological improvements**: RDM is well positioned having adopted and developed such 21st Century technologies as AI, cloud computing and big data. However, the company must continue its R&D programmes to stay ahead of the competition. Further product and process innovation using developments in these new technologies will provide further competitive advantages to the company. ★★★★
- **Partnership with healthcare providers**: Sales at RDM could negotiate preferential supply contracts with major healthcare providers such as hospital chains, large retirement home operators, national health ministries to grow sales revenues for the company and provide regular revenue streams for the firm into the future.

- **Exporting**: If a new production facility is located in a country that has efficient seaports, then this may enable RDM to deliver product to customers at lower cost. This would increase the company's contribution margin (essentially profitability per unit) and/or its price competitiveness as reducing price usually increases demand for a good. Sea freight is generally considered to be the lowest cost delivery method, and as such, new markets such as the UK and even the US and the large developing markets in China and India may be opened to the firm. If so, further economies of scale may be reaped. ★★★★
- **Growth of key healthcare market**: RDM operates in the profitable and growing healthcare industry. There is likely to be strong global growth; strong growth in developing markets such as China and India; growth associated with aging populations in Europe (RDM's main market) and the rest of the developed world; an increase in the prevalence of dementia. RDM should have a corporate strategy that accounts for these projections to capture more market share in a growing market. ★★★★

THREATS (EXTERNAL):

- **Recession in key markets:** Key markets in Europe may be plunged into recession, perhaps from the effects of Brexit or an Italian banking crisis. Take for example a recession in a key market that results in a yearly loss. There is a very real risk of economic recession given the cyclical nature of economic activity. Firms and consumers are less willing to spend in recessions and this could result in a substantial yearly loss for the firm. It is likely that RDM will be operating in a recessionary economic environment at least some of the time in when undertaking any new investment project. Loan repayments cannot easily be delayed, and default can have serious considerations to the firm. For example, in case of default the lending bank could require RDM to sell core assets and/or force the company into liquidation. A contingency plan must be made for recessionary years if loan finance is going to be used to pursue an expensive new investment opportunity. ★★
- **Changes in technology**: RDM is well positioned having adopted and developed such 21st Century technologies as AI, cloud computing and big data. However, the company must continue its R&D programmes to stay ahead of the competition. The pace of change for firms operating in Industry 4.0 is exponential – data sets get bigger, algorithms become increasing advanced and smarter AI drives smarter AI. ★★★★
- **Healthcare product regulation**: More stringent regulation of healthcare products could lead to longer and costlier testing and certification procedures before products can be released on the market. ★
- **Security of supply chain**: Suppliers of component parts must be chosen carefully and assessed both on their quality assurance practices and their ability to maintain consistent supplies to RDM. If component parts are of low quality, RDM's products will be subject to failure and client dissatisfaction. In healthcare products, product failure could result in costly litigation. RDM must have contingency plans surrounding supply chain interruption. ★
- **Exchange rate volatility**: A depreciation of the exchange rate will lead to imported raw materials and components, increasing the per unit cost and reducing profit margins for the products that RDM produces. Hedging is a way for RDM to minimise or eliminate foreign exchange risk. Two common hedges are forward contracts and options. A forward contract will lock in an exchange rate today at which the currency transaction will occur at the future date. ★
- **Price volatility of raw materials**: Raw materials are a relatively substantial variable cost of production at RDM. Raw materials are subject to price volatility. Forward contracts and hedging will remove much of the risk of the price of key inputs rising suddenly. ★
- **Current and future competitors in the market**: RDM operates in a competitive environment (they can only compete within that 700 km radius from the factory). If the firm's current competition innovates more successfully than RDM in either product or process innovation, then RDM will lose market share and profits will decrease. This also applies to the danger of new entrants with a better USP. A real concern to RDM would be new firms in countries with strong manufacturing industries (e.g., China, Japan, the US and Germany) entering key healthcare markets that RDM is competing in. ★★★★

SUMMARY CONCLUSIONS

RDM is profitable. This profitability is built upon its competitive advantages:

- Mass customisation using the very latest of technologies such as AI, big data and cloud computing
- Being highly productive (and having an opportunity to increase productivity rates further by developing the new production facility).
- Having a talented and engaged workforce

RDM's operating in the expanding healthcare industry so it has the opportunity to grow revenues as the market expands.

The company's mass customisation manufacturing process provides it with the opportunity to manufacture other products for different markets, to diversify and increase its revenue streams.

Thus, currently, RDM has everything going for it in terms of profitability. However, there are several factors that the management of RDM needs to consider, including:

- The pursuit of wrong opportunities (e.g., the new water bottle manufacturing division) will place pressure on profits.
- The company's corporate strategy must continue to evolve to pursue new opportunities and strengthen weaknesses and negate threats as they arise.
- The firm must continue to innovate and invest in R&D programmes, which is an opportunity cost to short-term profitability.
- Currently profits accrue to the family which owns RDM. If the company pursues its expansion with another production facility, and finances this with an IPO, then profits will be more widely shared. However, this smaller share would likely be of a much larger pie.
- Financing the new expansion by committing itself to having a massive long-term debt on its balance sheet may strain profits if the interest payments are too onerous.

*Source: www.**Business**Management**IB**.com*