IB Business Management – Pre-Released Case Study May 2019

Radeki de Dovnic Manufacturing – SWOT Analysis Activity

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IB BUSINESS MANAGEMENT – PRE-RELEASED CASE STUDY MAY 2019: 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 anything but Radeki de Dovnic Manufacturing and it will do so in a way to addresses two strategic options – location of the production facility and the aluminium water bottle division. 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!

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SWOT ANALYSIS FOR RADEKI DE DOVNIC MANUFACTURING AS AT MAY 2019

1. Briefly identify and outline the important Strengths, Weaknesses, Opportunities and Threats associated with Radeki de Dovnic Manufacturing as of May 2019 (when the strategic options will be under consideration) in the table below.

Strengths:	**Weaknesses:**
Opportunities:	**Threats:**

2. Explain how each factor identified in the table above is likely to impact Radeki de Dovnic Manufacturing's current and future business operations. Examples have been provided to assist you in developing your own SWOT explanations.

STRENGTHS

- **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.
- **Motivated employees**: A suitable and effective corporate culture, an established CSR programme and a leadership style which suits employees engaged in complex cognitive tasks all combine to lead to highly motivated and, thus, highly productive employees.

WEAKNESSES

- **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 board 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.

OPPORTUNITIES

- **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.

THREATS

- **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.