**HI5019 STRATEGIC INFORMATION SYSTEMS T2 2018**

Assignment 1 (Strategic Analysis) – Individual Assignment

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# Part 1 – External Analysis

## 1. Company Background

With operating more than 995 stores across the country, Woolworths has become the largest supermarket chain in the retail industry of Australia. A wide range of retail stores, distribution centers and support offices of Woolworths are prevalent across the country along with the significant assistance of its 115,000 staff base aiming to provide superior services to customers. The company, with the dedication to provide a wide range of products and services while maintaining remarkable quality and customer convenience, works tirelessly with Australian farmers and growers to ensure optimal offerings to the target market (Woolworthsgroup.com.au 2018). By understanding the rising trend among customers to shop in simple ways, Woolworths over the years has become one of the most innovative retailers in Australia.

## 2. Industry Analysis

Due to the impact of continued economic and social developments, specifically the robust economic growth, rising purchasing power and increasing population, the retail industry is rapidly gaining momentum to contribute to the overall perspective positively. Concerning the Compound Annual Growth Rate (CAGR), the retail industry of Australia, according to the analysis of Mordorintelligence.com (2017), will expand by 2 percent over the five-year period of 2013-18. However, such a growth rate indicates the need of substantial improvement in the industry, as it reflects expansion of Australian retail industry is second lowest in the Asia Pacific (ASPAC) region.

The market condition in the country is highly flexible, suggesting possibility of sudden incline or decline during the periods. Low interest rates, together with rising disposable income of the population could be significant for the industry to accelerate growth. Despite the weak growth throughout the industry, retailing has experience positive performance, together with the online sales, which experience stronger growth in recent years. As the consumers are encouraged to spend due to low interest rates and growth in household credits, the industry has become more price-competitive while offering most convenience to buyers (Euromonitor.com 2018).

## 3. General Environment Analysis

**Political Environment** – Political stability of Australia, along with the important contribution of food and staples in the retailing sector, as well as the economy at large, plays a great role in supporting Woolworths to establish a superior competitive presence throughout the country. Especially, the strategic position of the company throughout the market is strengthened by the application of ‘*Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)*’ (Sullivan and Gouldson 2017). With the help of the particular trade relation, Woolworths work as a single provider of products and services across the two different communities, thereby catering to the needs of a prolonged customer base.

**Economic Environment** – Despite the governmental interventions in free markets and food and staples sector of the economy, the flourishing growth of several economic perspectives enabling favourable growth of Woolworths. Australia, as well as New Zealand are both economically stable with maintaining a high standard of living that helps to accelerate retail sales of the company. According to the World Economic Outlook of International Monetary Fund (IMF) 2018, Australia is ranked among the top twentieth GDP worldwide, signifying substantial growth opportunities for the retailers.

**Sociocultural Environment** – Population from all demographic levels are preferring companies offering environmental-friendly products and services as a large number of customers is preferring organic products provided by the retailers with a green tag. Understanding such a trend, Woolworths is highly committed to providing ‘*green*’ products while becoming a trendsetter in promoting a healthier lifestyle (Sallis, Owen and Fisher 2015). Including its sustainability strategy 2007-15, Woolworths over the years has adopted many sustainability programs and initiatives to cope up with the changes in sociocultural environment.

**Technologic Environment** – The rapid advancements in modern technologies have created significant disruptions across the industries over the past decade. In order to cope up with fast-paced industrial transformation, caused by technologic advancements, Woolworths has increased its commitment towards innovation to develop new technologies continuously for enhancing service efficiency and meeting expected quality of its products. As part of the process, multiples changes have been initiated by the company, for example, incorporating self-checkout machines across all stores, Point-of-Sales (POS) machines and automation to improve service efficiency and increase customer convenience (Graham, Brinsmead and Hatfield-Dodds 2015). Additionally, Service Oriented Architecture (SOA) is one of the important technologic tool used by Woolworths to detect operational flaws and achieve cost efficiency.

**Physical Environment** – As part of the physical environment, Australian retailers are facing tough competition, leading them to focus highly on cost-cutting initiatives through opening smaller stores. Moreover, retailers seek to capitalise on the changing trend of fast and enhanced customer shopping due to technologic advancements. As part of the strategic shift, size of bricks-and-mortar stores of retailers are shrinking to provide adequate room for innovative thinking and improve customer-shopping experience (Jacobs 2018). While coming up with exciting in-store ideas has become a challenge, excessive rents for spaces have become an added burden for retailers like Woolworths to cut operational costs.

**Demographic Environment** – Despite being the sixth largest country in the world, the population of Australia is small, compared to its size, amounting to 25 million in 2015. The density of population is mainly observed in Sydney, Melbourne and Brisbane, causing limited growth of retail industry in the future outlook (statista.com 2018). However, a high standard of living, as indicated by the Human Development Index 2015, increased level of urbanisation and growing life expectancy are creating viable growth opportunities for Woolworths. Life expectancy in Australia is highest worldwide with average age of 82.5 years, leading to the growth of older population.

## 4. Industry Environment Analysis

**Supplier Power** – In the context of Australian retail industry, Woolworths and Coles are two giant supermarket chains controlling almost 80 percent of market share (Sutton-Brady, Kamvounias and Taylor 2015). While these two retailers are the largest purchasers of suppliers or producers, other small retailers are extremely limited in selection of intermediaries, suggesting very low power of suppliers in the particular retail environment.

**Buyer Power** – Bargaining power of consumers is high and it is consistently growing due to an increased level of competition caused by governmental interventions in free markets and food and staples sector. Increased competitive rivalry, changing environmental trends, rapid innovation and product differentiation have provided consumers with increased choices to strengthen their influence.

**Potential Entrants** – Threat of new competitors entering the market is low mainly due to complexity of administrative laws and difficulty in obtaining leasing agreement with property owners (Price, Bailey and Pyman 2014). However, major overseas retailers are gaining interest in entering the market given the available growth opportunities to create pressure for the existing retailers.

**Substitute Products** – Threat of substitution in the industry is high, particularly when a substitute product or service has a certain value proposition and promises to fulfil customer demands uniquely, compared to the present offerings (Wei *et al.* 2018). When a new product or service aims to fulfil similar needs of customers in a different way, profitability of existing retailers is expected to suffer considerably.

**Competitive Rivalry** – Competitive rivalry in the Australian food and retail industry is very high, mainly due to the presence of several major industry players, such as Coles, Wesfarmers, Myers and David Jones. Competitive pressure from the particular competitors is continuously forcing Woolworths to redefine its competitive strategies and differentiate operations to maintain a competitive edge.

## 5. Competitive Environment

Australian retail industry is experiencing a dynamic change mainly due to the market entry of new entrants, as well as constantly changing spending habits of consumers. The retail sector, especially the consumer goods segment is experiencing an interesting period, as many retailers are continuously transforming their approaches to enhance competitive presence throughout the market. The rapid growth of competitive activities, together with changing consumer behaviour is creating challenges across the market to raise concerns for investors despite creating opportunities for growth associated with different segments (Fornari *et al.* 2016). Apart from the domestic players, international retailing giants are causing substantial challenges for existing competitors. The arrival of overseas apparel players like Uniqlo, Zara and H&M, with their price-oriented strategies and enhanced distribution channels covering both online and physical stores, has created a price war in the retail environment, leading existing departmental stores of David Jones, Myer and other traditional retailers to face significant struggle (Nepal, Menezes and Jamasb 2014). Due to the deflated price, retailers in the country are suffering from reduced margins, forcing them to adopt various cost-cutting measures. The research of BT Financial Group (2018) observed that economic uncertainties, rapid advancements in technologic environment, rising prices of utilities and stagnant growth of wages had created pressure on consumer confidence, resulting in increased changes in their spending patterns to create concern for retailers.

Considering the consumer staples segment, increased competition can be observed due to the entry of foreign players like Aldi and Costco, forcing existing supermarket giants, such as Woolworths, Coles and Wesfarmers to surrender their respective market shares to the international invaders (BT Financial Group 2018). Furthermore, the arrival of Amazon in December 2017 has created added pressure for existing retailers, especially departmental stores and retail chains.

## 6. Opportunities and Threats

Due to the changing phase of competitive environment in the Australian retail segments, Woolworths are exposed to multiple opportunities albeit the presence of considerable threats. With the continuous emergence of technologies, the company has the opportunity to focus on its online business through developing social media presence and establishing online sales in line with the requirements of enhanced offerings and customer convenience. In the midst of severe competition and strict price war between domestic and international retailers, Woolworths always has the opportunity to adopt unique and improved promotional techniques to win back its customers (Jie and Gengatharen 2018). Furthermore, due to the increased disposable income of population, technologic integration, rising demands for new products and services, the retail market is one of the emerging economies of the country despite its limited growth forecasted for the coming years. As a result, supermarkets are experiencing substantial growth and expansion in the coming years.

Considering the threats, rising competitive scenario is the major concerns for existing retailers, as they are forced to surrender their market share to both major domestic and overseas players from international environment. The discounting wars with Coles and Wesfarmers, along with price wars with Aldi and Costco has cost sacrificing a major portion of retail margins of Woolworths, forcing the retailer to adopt a range of cost-cutting measures for remaining competitive. Especially when the Australian retail market is not growing at a required pace mainly due to rising property prices and stagnant growth in wages, supermarkets like Woolworths are faced with the struggle of expanding its business operations (Devin and Richards 2018). At the cost of major supermarket giants, low-cost providers like Aldi is expanding rapidly in the Australian retail market. Furthermore, the arrival of Amazon, the leading online retailer worldwide, has created a major disruption in the retail environment, causing departmental chains and retail stores specifically to experience the major challenge.

# Part 2 – Internal Analysis and Proposal

## 1. Tangible and Intangible Resources

Woolworths is the leading retailer in the Australian retail environment, allowing it to enhance its leadership position further across the industry with the ability to use strong resources in the form of technological, human resources and physical presence. As the largest supermarket chain, Woolworths, as part of its tangible resources, operate with 995 stores across the country while gaining impressive assistance from 115,000 team members throughout these stores. Additionally, its various distribution stores and support offices also contribute to its tangible resources to support the company in providing its wide range competitive offerings with added value, quality expectations and convenience (Sullivan and Gouldson 2017). Based on the intangible resources, the company has its significant brand presence across the entire retail environment, as the provider of high-quality products and services through working closely with farmers and producers. Apart from the commitment to provide value-added products and services, marketing campaigns led by the company is another significant resource helping in attracting customers by understanding their spending patterns.

## 2. Capabilities Identification

One of the first and foremost capabilities of Woolworths is its ability to attract and retain highly experienced employees at the workplace to increase operational efficiency and promote competitive edge (Bailey *et al.* 2015). Secondly, the retailer’s dedication to supply fresh foods and promote a healthy lifestyle in another important capability, making it the leading organisation in the retail industry of Australia. Thirdly, its ability to deliver value to its customers and enhance profitability of the business is something that is worthwhile in the dynamic retail environment of the country. Lastly, maintaining uniqueness in business strategies is another important capability of Woolworths, supporting its objectives of developing a world-class supply chain, unique branding and marketing approach alongside withholding innovation and integration.

## 3. Core Competency Analysis

Core competency of Woolworths is strengthened by recruiting candidates that are more experienced across its numerous stores in Australia and abroad while motivating them to provide exceptional in-store services and value to the customers, compared to its competitors. The second capability of Woolworths matches with emerging trends in the retail environment, where customers want to shop for high-quality foods and other consumer staples at their convenience. As a result, the organisation works closely with a wide range of growers and farmers in the country to provide best products to customers through its exceptional supply chain networks. Thirdly, the company’s commitment to ensuring high-valued offerings has made it the Fresh Food People in Australia with providing 96 percent of all fresh foods and vegetables along with 100 percent fresh fish and meat from farmers and growers across the country (Zarkada-Fraser and Fraser 2015). Finally, with its presence in both online and physical distribution channel, supply chain networks and marketing campaigns undertaken by the firm is highly appreciating. Woolworths Supermarket App, for example, greatly depicts its strength in supply chain and marketing.

## 4. Proposed Suitable Information System

Business operations of a retailer always depend on purchasing goods and products from suppliers and producers in a large quantity and selling those to end customers directly in smaller quantities (Pantano and Timmermans 2014). Therefore, it is highly imperative for a retailer like Woolworths to communicate with growers and farmers, as well as consumers to fulfil different expectations from various perspectives, including customers, manufacturers, technologies and price. A large retailer like Woolworths, as a result, must need to use and implement a retail management information system adequately for not only managing the information flow but also centrally administering operations of its physical stores across various geographies (Laudon and Laudon 2016). The particular system greatly comprises software, hardware, database and various modules.

## 5. Evaluation of Proposed System and Recommendation

Given the strong growth of technologies in the modern business environment, Woolworths is recommended to implement the proposed retail management information system due to its capability to provide important day-to-day information to retail managers across the stores efficiently. The particular information system should be implemented on a flexible basis so as to adapt to evolving changes in the retail environment while anticipating needs and requirements of various retail managers (Piotrowicz and Cuthbertson 2014). Most importantly aligning the information systems with strategic plans of the business is fundamental to support achievement of diverse business objectives.

It is advised to the selected company to connect the particular information systems with all stores to enable flawless exchange of information among management. The particular systems are expected to help Woolworths to make highly informed decisions through conducting customer analysis, as changes in consumer buying behaviour are prevalent in the Australian retail environment.