

# Business and Market Analysis



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## Executive Summary

This report is a critical analysis of The Warehouse and the business environment with which it exists in. With application of the Marketing Toolkit we have identified market opportunities, estimated the market potential and profiled customer segments.

Key findings were;

- Competing in the mass-market discount retailing industry. Core market segment are families. Low price – high sales volume business model.
- Environmental, social responsibility, economic cycles are key external environment factors.
- Buyer and supplier power are the two most important industry factors.
- Clothing, homeware, entertainment and consumer electronics are the most attractive product categories.
- A competitive advantage is sustained by maintaining ‘bargain’ and ‘value for money’ strategies.
- Have adopted a market penetration strategy.
- Diversification and competitive gap has closed with competitors slightly due to a 0.7% decrease in potential sales in 2011.
- High growth/high share product portfolio was dominated by technology categories, low growth/low share was reserved for books.
- In key target market of families, there are estimated to be 300,000 household units in the Auckland region.

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## Introduction

Established in 1982 The Warehouse is one of New Zealand's largest retailers, with 89 stores and employing nearly 9000 staff from Kaitaia to Invercargill. The Warehouse generated sales of \$1.67 billion for the year ending 31<sup>st</sup> July 2011 (The Warehouse, N.D).

We begin this analysis with discussing The Warehouse's external environment and relevant industries and markets, followed by applying analysis models; Porters Five Forces (industry), GE Matrix (market) and Seven Domain Analysis (business).

Next we discuss The Warehouse's internal environment by applying analysis models; Ansoff Market Matrix and Ansoff Planning Gap (business), Boston Matrix (product portfolio) and the Chain Ratio Method (market dimensions).

To complete this report we conclude with a business recommendation to The Warehouse management.

## 1.0 Environment and Background

This section will focus on the analysis of the external environment and factors affecting The Warehouse.

### 1.1 Relevant Industries and Markets

The mass-market discount retailing industry is relevant to The Warehouse. Their numerous and varied suppliers are important as the company uses its large size and buying power to pressure suppliers into low prices in exchange for high volumes. The benefits also come from terms of scale in manufacturing and logistics. The company can grow more revenue out of its fixed cost base (more sales from one store).

Families are the core target market segment. These markets are attractive to The Warehouse as they spend smaller amounts, but more often. This is in keeping with their model of lower prices and high sales volumes.

## 1.2 External Environment

The critical aspects include *environmental*, where the trend is moving towards consumers being more environmentally and socially astute in their buying behaviour. The Warehouse is addressing this by improving systems, having more inspections and visibility on the factory of origin. This helps secure assurance over quality, labour and environmental standards (The Warehouse Group, 2011). Electricity consumption is one of the biggest issues in relation to Green House Gas Emissions. Another critical aspect is *economic*. Retail sales in NZ fluctuate according to where we are in the economic cycle.

*(See appendix 1 to view a description of the external environment influences)*

## 1.3 Industry Analysis - Porters Five Forces

Buyer and supplier power are the two most important factors in our current environment as we are in the maturity/declining stage of the retail industry, where there are fewer customers and it is all about price.

The threat of substitutes, with an increasing number of sales conducted online will be the next significant factor.

The threat of new entrants due to the economic environment and new competition is relatively minor as there is not a large enough population to support new, bigger players moving in to compete.

*(See appendix 2 to view Porters Five Forces model and application)*

## 1.4 Market Analysis - GE Matrix

All major categories were analysed using a business screen, and scored against a range of questions relating to market attractiveness and competitive strengths. Clothing and homeware appear to be the most attractive categories. These have always been core business for The Warehouse and appear to be sustainable. Entertainment, consumer electronics and gaming appear to be a mature, possibly declining category for The Warehouse.

*(See Appendix 3 to view Business Screen and application)*

*(See Appendix 4 to view GE Matrix and application)*

## 1.5 Business Analysis - Seven Domain Analysis

Analysis of The Warehouse shows that the company holds a sustainable advantage over competitors by focusing on bargains and value as the two key strategies. With The Warehouse's target segment being families, this provides a wide and varied area to sustain sales whilst also allowing the company to enter niche markets such as pets and books.

*(See Appendix 5 to view Seven Domain Analysis and application)*

## 2.0 Business Analysis

This section will focus on the analysis of the internal environment of The Warehouse business.

### 2.1 Business Analysis – Ansoff Analysis

#### Ansoff Market Matrix Analysis

The Warehouse first entered the NZ market with a development strategy to introduce new products into existing markets, taking advantage of the market gap for quality/low cost products and advertised as a one-stop-shop for all customer needs. Today The Warehouse has adopted a market penetration strategy, continuing to increase its market share and product usage, maintaining this market share with sales promotions and significant advertising. The Warehouse has aligned with MasterCard promoting add on sales and customer loyalty.

*(See appendix 6 to view the Ansoff Marketing Matrix and application)*

#### Ansoff Planning Gap Analysis

For the year ending 31<sup>st</sup> July 2011, potential sales were down by 0.7% (The Warehouse Group, 2011). This means the diversification and competitive gap has closed slightly with main competitors; Farmers, Kmart, Briscoes Group and Super Cheap Auto's. However projecting forward 5 years, The Warehouse will look to increase potential sales and continue to grow.

*(See appendix 7 to view the Ansoff Planning Gap graph)*

## 2.2 Product Portfolio Analysis – Boston Matrix

Conclusions from this application identified;

- Stars: DVD's, electronics, gaming and music.
- Cash Cows: clothing, homeware and toys.
- Question marks: store cards and insurance.
- Dogs: books.

*(See Appendix 8 to view the Boston Matrix and application)*

## 2.3 Market Dimensions – Chain Ration Method

With application of this model we were able to estimate the size of The Warehouse's key target market (families) in the Auckland region. This market consists of an estimated 300,000 household units, each consisting of approximately 4 family members.

*(See appendix 9 to view the Chain Ratio Method application)*

## Summary

Looking at The Warehouse's overall business situation we can summarise with the following:

Economic are the most significant external factors as we move out of the GFC, followed by environmental factors including greenhouse emissions. Buyer power is in favour of The Warehouse, being a major player in NZ's retail industry. Online sales may however become a threat. Clothing and homewares are the core categories to protect and grow. The electronic and gaming sector is fast moving but competitive, meaning The Warehouse is at risk of losing market share. Niche market penetration can be supported by core category business.

The Warehouse has adopted a market penetration strategy to maintain market share and product usage. Due to reduced 2011 sales the diversification and competitive gap has narrowed with competitors. The best performing product categories are clothing and homeware, as well as electronics and gaming. The estimated size of The Warehouse's market in Auckland is 300,000 households.

The Warehouse must maintain and improve purchasing and promotional power and continue to reinforce “value and bargain” as its focus across all market segments, as well as improving in-store execution in order to match competitor efforts within the market.



## References

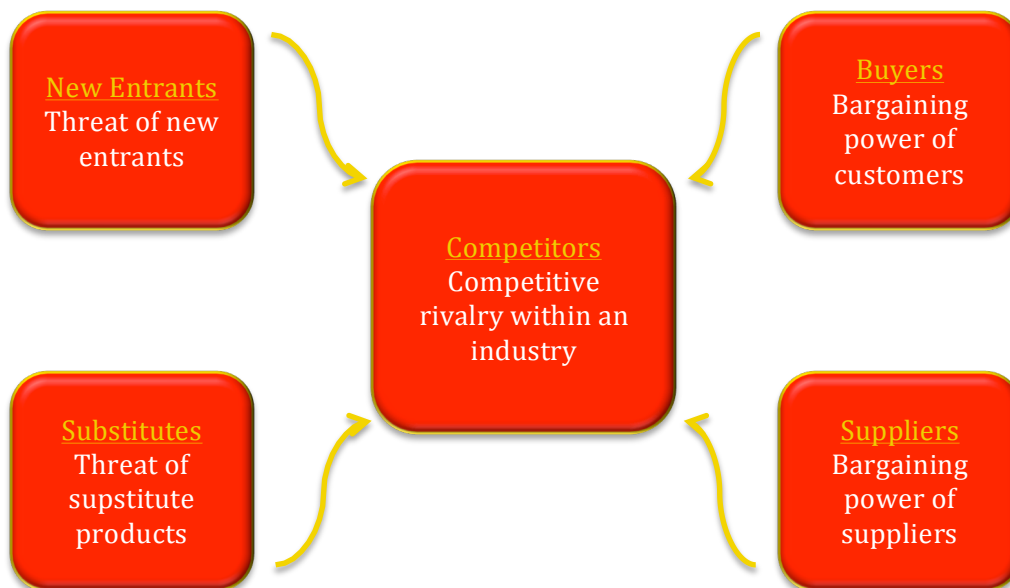
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## Appendices

### Appendix 1 – External Environmental Influences

EXTERNAL ENVIRONMENT INFLUENCES						
<i>Political &amp; Legal</i>	<i>Competition</i>	<i>Social &amp; Cultural</i>	<i>Demographics</i>	<i>Technology</i>	<i>Environmental</i>	<i>Economic</i>
<p>Regulations The Warehouse needs to adhere to are: (Chapman Tripp, 2011)</p> <ul style="list-style-type: none"> <li>• Competition Law (Commerce Act 1986) <ul style="list-style-type: none"> <li>○ Business Acquisition,</li> <li>Restrictive Trade Practices,</li> <li>Price Controls</li> </ul> </li> <li>• Consumer Protection <ul style="list-style-type: none"> <li>○ Fair Trading Act 1986,</li> <li>Consumer Guarantees Act,</li> <li>Consumer Credit, Retail Regulation</li> </ul> </li> <li>• Contract Law</li> <li>• Employment Law</li> <li>• Public Protection <ul style="list-style-type: none"> <li>○ Information Privacy, Human Rights</li> </ul> </li> <li>• Creditor Protection</li> <li>• Taxation Laws</li> </ul>	<p>Main competitors are Farmers, Briscoes Group, Kmart and Super Cheap Autos</p>	<p>Many families in NZ, particularly Auckland, are Pacific Island or Maori.</p>	<p>Family orientated customers. Within this group there are segments, mainly based on income. The Warehouse is addressing these segments by introducing more quality products into their categories e.g. jewellery, white ware.</p>	<p>Efficient stock control systems are paramount</p>	<p>Refer 1.2 Over all growth of Greenhouse Gas Emissions was 0.6 2010-2011. TWL monitors lighting efficiencies, demand for vehicles/air travel and waste intensity regularly (The Warehouse LTD, N.D).</p>	<p>Refer 1.2</p>

Appendix 2 – Porters Five Forces, applied to The Warehouse



(Adaption of model sourced from: (Mullins & Walker, 2010)

<b>Suppliers</b>	The current trend is for suppliers to become a price taker (not price maker). Industry's big players are squeezing them and dictating prices. This does not apply so much to the smaller retail players.
<b>Buyers</b>	This relates to the economic environment. We are very price driven in NZ particularly in times of recession/coming out of recession, to the extent where price will over-ride ethical buying decisions. Buyers have many choices. This creates strong price competition.
<b>New Entrants</b>	The current environment is unattractive to new entrants as established big players have "cut out a lot of fat". The retail industry in NZ is currently in its mature – declining stage, which is why we have seen consolidation (mergers and acquisitions) to achieve better economy of scale. It's all about price now. <i>(See Appendix 10 to view Retail Industry Maturity Graph)</i>
<b>Substitutes</b>	On-line buying is affecting retail sales.
<b>Competitors</b>	We are seeing aggressive price wars that relates to the maturity/decline stage of the industry. This forces smaller retailers to close.

Appendix 3 – Business Sheet, applied to The Warehouse

Market Attractiveness	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	Entertainment (music,DVDs)	Consumer Electronics	Gaming	Clothing	Homeware	Toys	Books	Music	sporting	Jewellery	Health & Beauty	Party	Baby	Pet
Is the industry growth rate high?	5	5	5	3	5	4	5	5	3	5	5	3	5	5
Is the market size large enough to sustain many competitors?	2	5	5	5	5	2	2	5	5	2	5	2	5	5
Are industry sales susceptible to cyclical, seasonal or other fluctuations?	5	5	5	1	4	3	5	5	4	5	5	4	5	5
Is the rate of product obsolescence high?	1	1	1	4	5	5	5	3	5	5	5	4	5	5
Is the industry demand high/low compared to industry capacity?	2	2	4	3	4	3	3	4	1	2	3	4	5	4
Unmet needs within this segment - cheaper prices demanded, bigger range,	1	1	1	1	1	4	1	1	3	5	3	4	4	5
Are there a number of well-financed competitors?	1	1	1	1	1	5	4	2	1	1	1	4		4
<b>TOTAL SCORE FOR ATTRACTIVENESS</b>	<b>17</b>	<b>20</b>	<b>22</b>	<b>18</b>	<b>25</b>	<b>26</b>	<b>25</b>	<b>25</b>	<b>22</b>	<b>25</b>	<b>27</b>	<b>25</b>	<b>29</b>	<b>33</b>
1-12 low - 13-25 med - 26-35 high														
Competitive Strengths	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	Entertainment (music,DVDs)	Consumer Electronics	Gaming	Clothing	Homeware	Toys	Books	Music	sporting	Jewellery	Health & Beauty	Party	Baby	Pet
Is the sales environment modern & efficient	1	1	1	3	3	3	3	3	3	5	3	3	3	3
Do we have positive brand awareness?	1	1	1	4	5	5	3	4	3	2	2	1	1	1
Do customers have a positive image of our products?	4	3	4	5	4	4	3	3	3	1	2	3	3	2
Are we cost competitive?	5	5	5	5	5		5	5	5	5	5	5	5	5
Is this a growth market or mature in decline	1	5		3	3	3	3	2	4	4	4	4	4	4
<b>TOTAL SCORE FOR COMPETITIVE STRENGTH</b>	<b>12</b>	<b>15</b>	<b>11</b>	<b>20</b>	<b>20</b>	<b>15</b>	<b>17</b>	<b>17</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>15</b>
1-8 low - 9-18 med - 19-25 high														

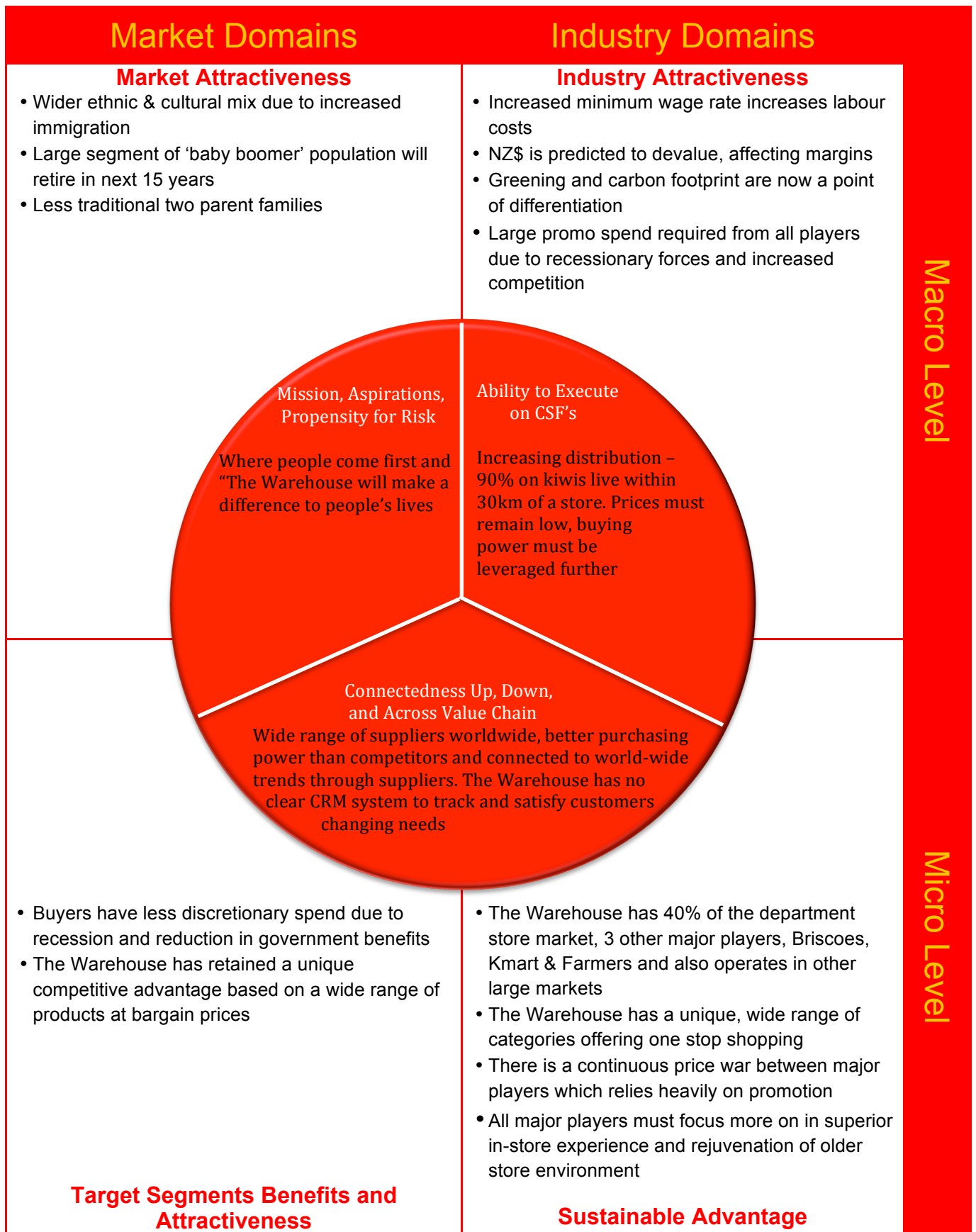
(Adaption of model sourced from: (Mullins & Walker, 2010))

Appendix 4 – GE Matrix, applied to The Warehouse

Industry Attractiveness				Business Competitive Position
High	Medium	Low		
	Clothing, Entertainment, Electronics, Gaming, Homewares		<b>High</b>	
Toys, Health & Beauty, Baby, Pets	Books, Music, sporting, jewellery, Party		<b>Medium</b>	
			<b>Low</b>	

(Adaption of model sourced from: (Mullins & Walker, 2010)

Appendix 5 – Seven Domains Analysis



Macro Level

Micro Level

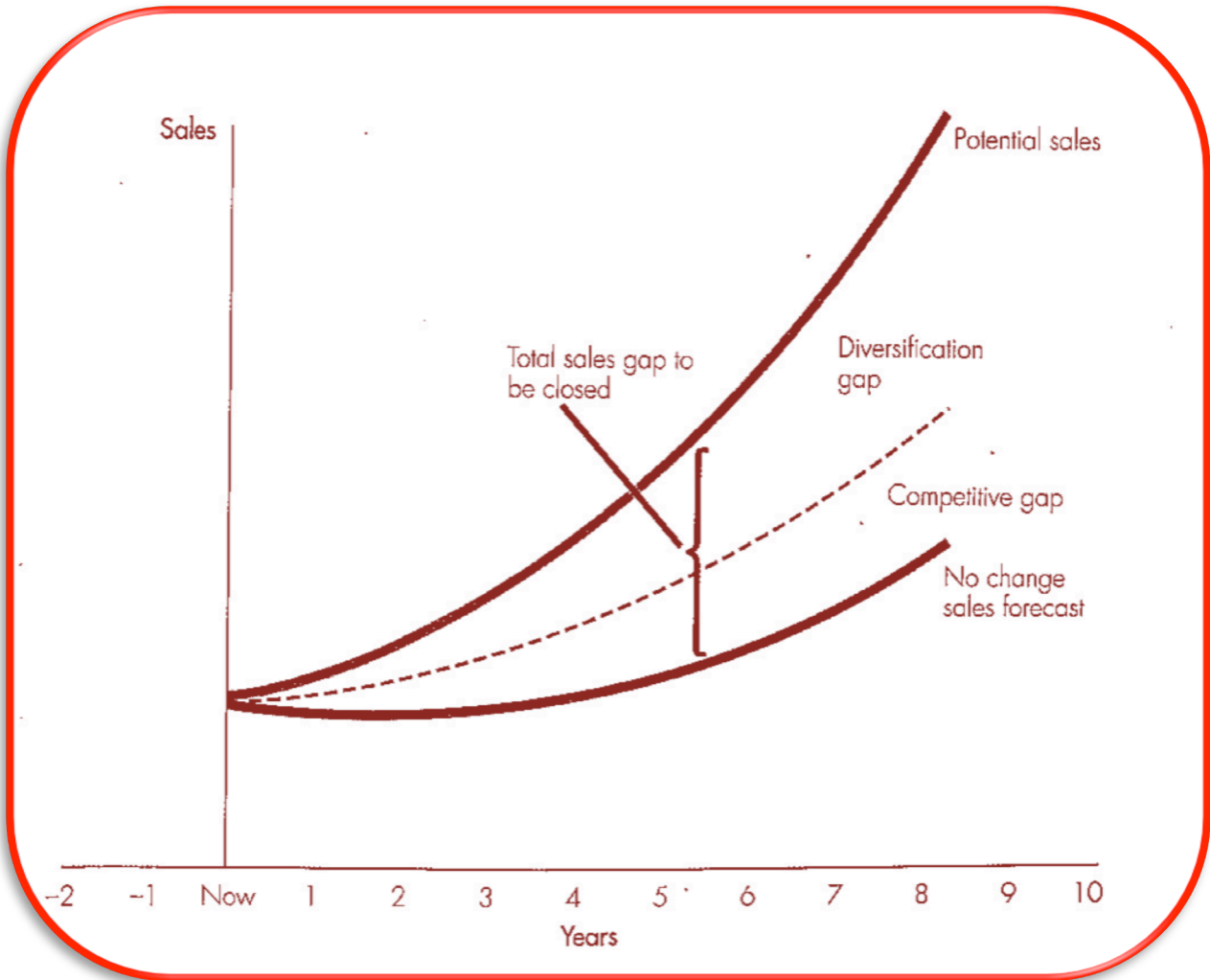
(Adaption of model sourced from: (Mullins & Walker, 2010)

Appendix 6 – Ansoff Matrix, applied to The Warehouse



(Adaption of model Sourced from: (Mullins & Walker, 2010)

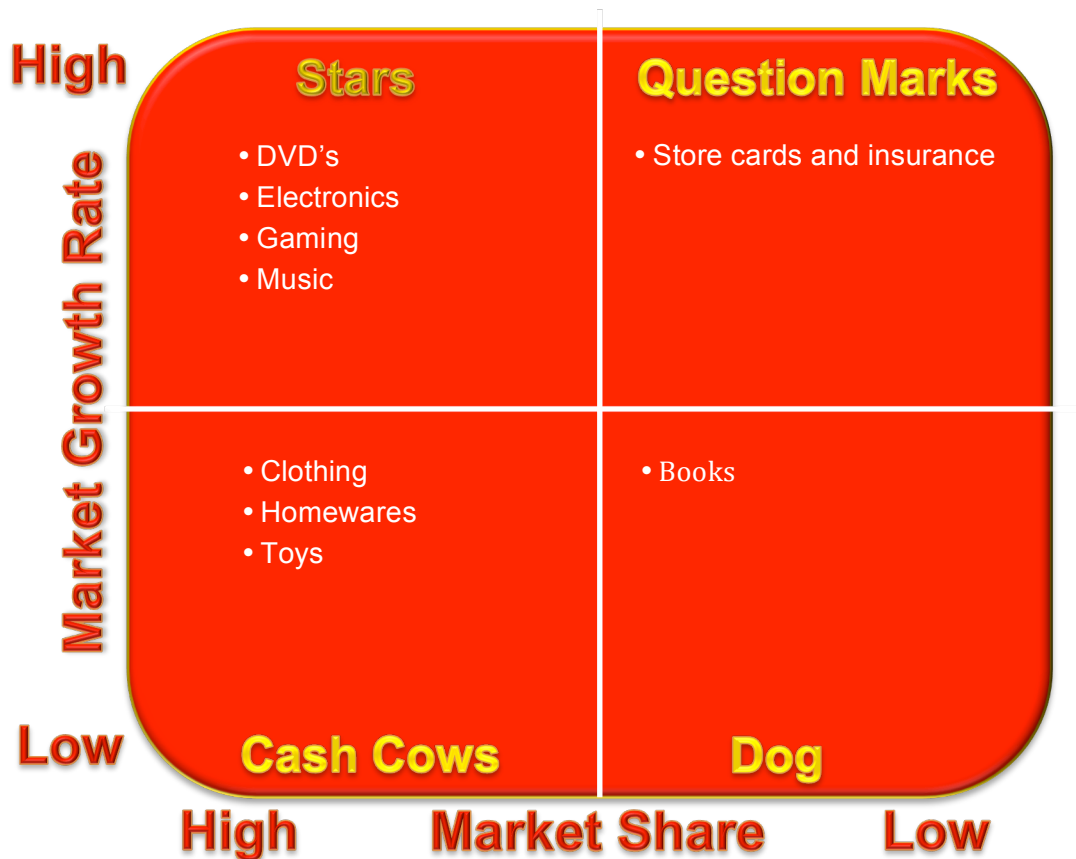
Appendix 7 – Ansoff Planning Gap



(Sourced from: (Mullins & Walker, 2010))



Appendix 8 – BSG Model, applied to The Warehouse



(Adaption of model sourced from: (Mullins & Walker, 2010))

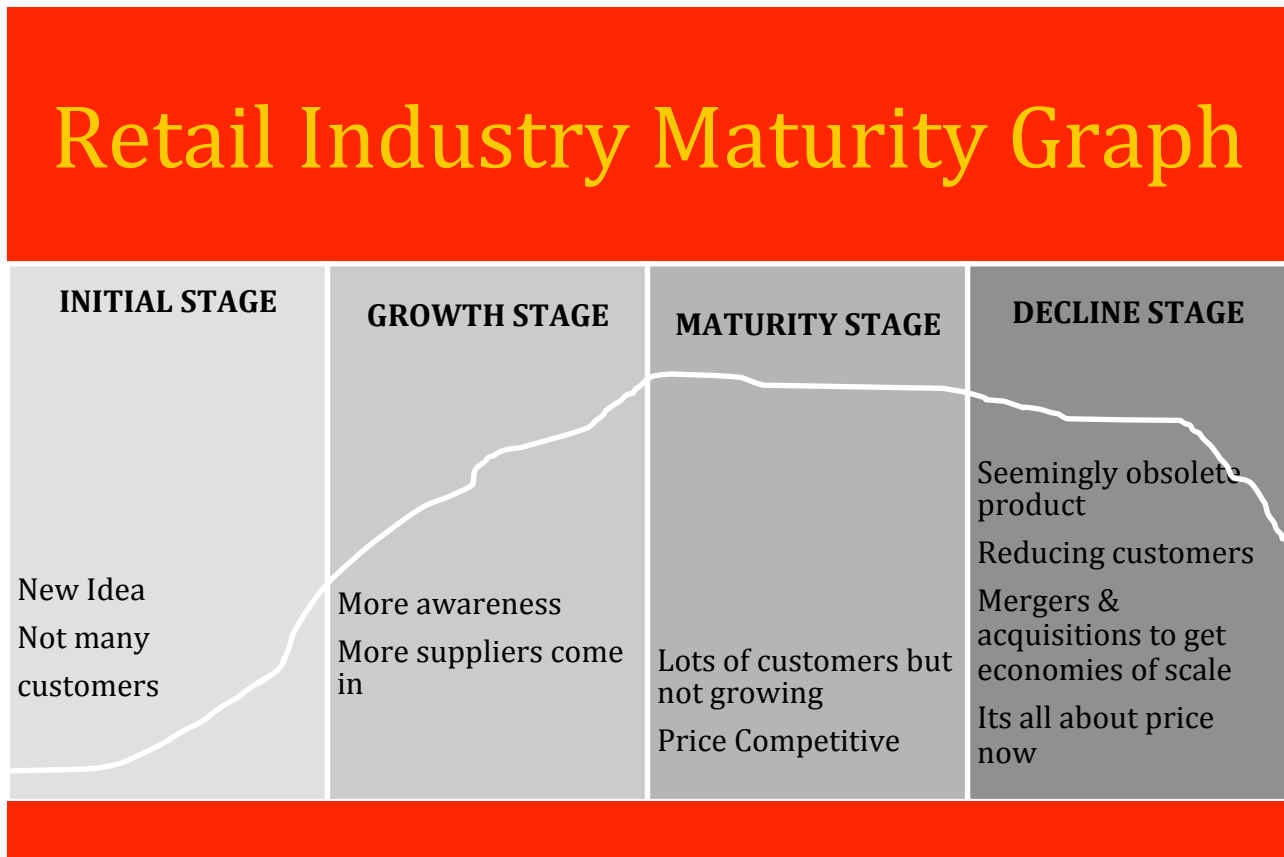
High Growth High Share	Category is dominated by technology. This is due to high sales and the high level of competition (Dick Smiths and JB Hi-Fi) in this market. The Warehouse must continue the promotion these products to maintain a dominant market share.
Low Growth High Share	Category represents The Warehouse's primary earners; clothing, homewares and toys. The Warehouse built its business on these product lines and continues to be the market leader in this category.
High Growth Low Share	Category accounts for two relatively new products to The Warehouse; cards and insurance. These products have a high level of investment as well as a high level of risk.
Low Growth Low Share	Category represents books. Books are a weak cash provider to The Warehouse, so hold a small amount of company resources.

Appendix 9 – Chain Ration Method applied to The Warehouse

Research results	Data from Research	Chain ration Calculation	Result
Population of target area, Auckland	1.4 million		
Approximate number of people per household unit	4	$1.4 \text{ million} \div 4$	350,000 <i>Household units in Auckland</i>
Singles, widows, retirees	50,000 (estimated)	$350,000 - 50,000$	300,000 <i>The total number of household units in Auckland</i>

(Adaption of model sourced from: (Mullins & Walker, 2010))

Appendix 10 – Retail Industry Maturity Graph, applied to The Warehouse



(Adaption of model sourced from: (Smith. D. 2012))