

An understanding of the nature of environmental forces and their impact on Business

WH Smith is one of the biggest book retailers in the UK nevertheless it has suffered from a £135m loss in 2004 compared with profits of £52m in 2003, (Music Sales Play a Key Part in Smith's New Strategy, 2004). Therefore an analysis of WH Smith needs to be concerned with understanding the forces including both external and internal ones which influence its performance, especially in light of its recent poor performance and suggest strategic measures which could be taken to rectify this situation.

According to Johnson and Scholes (2002) the external environment for a corporate entity can be divided into the macro environment which can be analysed through the use of the PESTEL model and the micro environmental context for the organisation which is defined as the industry forces which influence the specified company. In respect of this then Porter's five forces framework is useful in considering the main external forces that have had impacts on the performance of WH Smith both in a negative and positive sense. First of all the key trends occurring in relation to book retailing and retailers generally can be seen from socio-cultural, economic, technological and legal perspectives. The most important trend to date concerning book retailers has been the development of the Internet which has shaped consumer purchasing behaviour in various ways in particular in the manner and means in which they purchase books. Due to the development of these technological innovations the use of the Internet has increased rapidly and according to a survey carried out by the Interactive Media in Retail Group (IMRG) half of the total 24.5 million households connected pay £230 annually to connect to the web which demonstrates a large financial commitment to the web and a large coverage of internet users demographically across the UK, (Imrg.org, 2004).

In addition the UK government has strongly advocated the development of a 'legal and fiscal environment' to facilitate itself to be the best place in the world to conduct e-commerce by 2002 in numerous policy statements and regulatory initiatives, (Galliers & Wiggins, 2002). Such movements and pronouncements can also be put into the context of much broader European trends towards a more connected and IT-orientated EU post Lisbon summit. Numerous surveys and research has indicated that consumer acceptance of e-shopping in the UK is much higher than in many other European countries and results of such research has predicted that online consumer spending in the UK will rise from US\$2.6 billion in 2000 to US\$30 billion by 2005, (Forrester Research, 2000). From this perspective then the development of the Internet can be seen as a main and critical opportunity for book retailers such as WH Smith. This is because it has been suggested in the research that books are the first retail category to which customer's attention in terms of internet shopping turns to. Indeed perhaps the Internet's greatest success story has been the rise and emergence of Amazon.com which has built its business on the sale of books. Indeed the presence of Amazon.com globally can be seen as one of the principal threats for book retailers nationally.

Additionally the increasing level of education to be found among consumers demographically contributes to book retailer WH Smith in terms of the opportunity it presents of developing an internet based book retailing model to match both consumer demands for books and their preferences in terms of a way of shopping which meshes with their lifestyles. It has as such then been argued that current consumers require quicker and more effective responses to their demands due to these changing lifestyles and hence it is vital to be aware of the increasing power of consumers in the retailing industry and in particular the book retailing industry. However WH Smith it can be strongly argued has failed to meet this challenge effectively which has turned into being a major weakness for the company. This weakness is in particular reflected in their off-the-shelf design of their website that does not fit with the brand image illustrating serious mismatches between expressed wishes to use the Internet effectively and the implementation of such wishes in reality. Thus government support and legal development in regulating new e-retailing forms while ostensibly aimed at giving opportunities to both companies and consumers has at the same time created threats to WH Smith due to their inability to profit from such developments. Retailers such as Amazon.com and Barnes & Noble have invested huge amounts of money in improving their security and privacy performance in terms of e-shopping and operate successfully by offering lower price and time-flexible products that respond dynamically to the new demands of e-aware consumers, (Kaarst-Brown & Evaristo, 2004).

Furthermore competition has also come from supermarkets such as ASDA and TESCO and specialists like HMV in terms of entertainment product ranges and GAME in the computer game retailing market. Therefore intense competition is another key threat to the survival of WHS both specialist retailers and new general retailers further diversifying their product ranges. It is important also to mention another major trend that has had a significant impact on the book retailing industry which can be defined as the continued growth and emergence of a global economy that provides new global markets for the expansion of Smith. However according to Pitcher (2004) the US interests acquired by Smiths as part of its expansion plans have been disposed of at a cost of £61m to the retailer due to their failure to penetrate the US market effectively. In terms of overall strategy then WH Smith's appears from these indicators to have serious problems in responding to new social, cultural and economic trends in the successful conduct of its business.

A full understanding of WH Smith's performance however needs to be analysed from both the business environment and also concerning its strategic capabilities that are the most likely to have an impact on the development of strategy in a successful sense. It is evident that the failure of its past strategies has had the result of growing corporate weaknesses in terms of continued poor performance of its business units and their continued low levels of efficiency in operating in their markets. The management team recently boldly decided to employ a diversification strategy which was accompanied by the slogan 'more of what you really want', (Smith, 2004). However as we illustrated above what consumers seem to really want as evidenced by the research has not been met by the provision of the retailer's strategy. Its diversification strategy it would seem has not been enough of a radical change, a change which it can be argued is necessary for the retailer to adapt to the massively

altered retail context and environment in which it finds itself today. The failure of this diversification strategy can be clearly seen in the large losses racked up by the retailer following the introduction of the strategy. Continued weak trading up until last Christmas and the inability of the retailer's management team to offer responses and strategic options for the company raises serious questions about the efficacy then of the current management team.

Such management errors can be seen for example additionally in the lack of corporate website development which can be contended to have damaged the brand image among consumers turning to the Internet for their book retailing needs. As such then it is vital that as a traditional book retailer the recognition is made that brand name is a key success factor for Smith in competing in book retailing industry successfully both at the present time and in the future. Wilkinson (2004) argues that WH Smith and the image of the brand and the images associated with that brand are ones which suggest an out of date retail proposition revealing a deep seated and rooted failure of management of the brand name successfully. In other words it can be suggested that the brand image and its lack of modernisation reflects the more general concerns of Smiths not adapting to new trends.

In light of these criticisms and weaknesses however it can be stated that although WHS has failed to meet these new challenges in various ways the relationship which it has with suppliers and publishers can be a strength for the company if developed and used successfully in new strategies for success within the market. For example an important consideration to remember is that publishers have been supportive of the strategic changes in the WHS books team and look set to co-operate and be a part in any further changes initiated and begun by the retailer in response to the pressures it faces, (Fraser, 2004). However these positive relationships need to be balanced by negative ones, such as the challenges fiscally to be faced by the company in terms of the provision and management of its pension funds for employees. This challenge will no doubt also be replicated and be an issue of further concern for the shareholders in the company as the fiscal difficulties of this become more apparent and more a burden of the financial performance of the retailer in the future.

The four main categories of retail operations for WHS are books, entertainment division, stationery and its news division. Figures have revealed that the DVD sales for the company jumped up 20 percent which can be defined as a cash cow sector for the retailer according to Boston's model, (Bradley, 2003). However both the music segment of the company and its multimedia products both dropped in terms of sales figures quite rapidly thus it appears that these segments should be cut down or Smiths should exit this market due to the intense competition in particular from specialist providers and the low competitive capability which now exists in these markets. In this sense then in a strategic sense the onus is on Smiths to concentrate on those parts of its business which are performing well and to move away from what might be considered traditional segments of its operations even if such moves might be controversial. Whether the retailer has the necessary will to engage in such radical changes is however a major question for the company, its shareholders and customers.

Similarly and arguable the key issue for the company remains the tremendous evolution of the Internet and associated technologies and the emergence of firms such as Amazon.com in response to growing consumer demand for this new method of retailing. Book retailers in general and not only WH Smith have struggled with the decision of when and how to adopt an Internet presence and others have been more successful than others. WH Smith's in particular has not been a success in entering the online market successfully and the more this form of retailing emerges and develops the more this weakness will grow in terms of inhibiting the good and healthy performance of the company. Smiths response at present to the Internet has it can be argued be one of hesitancy and confusion and one which shows a lack of commitment in terms of resources towards developing a significant online presence for the company. Such a failure is as mentioned a concern in numerous ways for the company.

The branding strategy of Smiths will be one of the operational determinants for the success or failure of Smith's in pursuing the development of an online presence. Smith's thus needs to illuminate the traditional strengths of its brand image but transpose them to a successful e-retailing model hence combining the traditional strengths of the company's brand image with the modern preferences of the consumer. Thus e-retailing could feasibly be developed as a star division for Smith if these twin elements can be combined into a successful strategic policy committing the company to online retailing. In addition the main customers for WH Smith are middle class therefore a focused differentiation strategy would also be useful in regaining its competence both online and offline. Based on the analysis of the main retail divisions the focus of WHS should be to concentrate on their core business, book retailing and stationary sections. The cash generating DVD section should be supported and expanded through cutting the poor performance divisions such as music and this could be a successful online venture for the company. Finally as mentioned above the development of a new cohesive and modern brand strategy and image for the company will be an integral element for present and future success of the retailer, online.

Appendix

The Growth Share Matrix (BCG Box)

Market Share

		<i>High</i>	<i>Low</i>
<i>Market Growth</i>	<i>High</i>	<i>Star</i> <i>(E-retailing product lines)</i>	<i>Question Marks</i> <i>(Books and Stationary divisions)</i>
	<i>Low</i>	<i>Cash Cow</i> <i>(DVD division)</i>	<i>Dogs</i> <i>(Music and Multimedia)</i>

			<i>products)</i>
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This table illustrates core competencies for the company and success or failure factors for market growth for the company according to divisions in its retailing operations upon which future strategies could be based.

Word Count: 2151