Accord SWOT Analysis

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

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

Strengths (internal)

- Owners are actively involved
- Existing product selling satisfactorily
- Business model strong enough to solicit finance from an angel investor
- Strong CSR

Weaknesses (internal)

- Non-independent CEO and inexperienced owners
- Unit costs
- Price
- Product
- Distribution
- Finance
- Marketing mix
- No corporate strategy or strategic plan
- Lack of an operations plan
- Business structure – partnership
- No diversification (product or market)

Opportunities (external)

- Partnership with a business angel
- New production facility
- Diversification strategy:
    - Marketing to other consumer segments
    - Diversify into new products
    - Diversify into new markets
- Expand product range to support a new lifestyle brand
- Exporting
- Growth of energy drink market

Threats (external)

- Current and future competitors in the market
- Social media backlash
- Recession in key markets
- Beverage and energy drink product regulation
- Security of supply chain
- Exchange rate volatility
- Price volatility of raw materials

Figure 1: Accord summary SWOT analysis

Accord SWOT Analysis

STRENGTHS (INTERNAL):

- **Owners are actively involved**: Kayla and Aran established the partnership. They are both actively involved in all aspects of the business (finance, operations, strategic planning, marketing, etc.). Both owners are highly motivated individuals and driven to achieve (they are successful international athletes). ★★
- **Existing product selling satisfactorily**: Accord has achieved a satisfactory level of sales of the energy drink Enrich in the three months it has been operating. Sales do not necessarily translate into profits, especially at such early stages, but the case study makes no mention of a looming liquidity crisis. Sales levels could mean that Accord has net positive cash flow. Further, this indicates that at least some aspects of the marketing mix enveloping Enrich is proving successful in a given niche – probably product and/or promotion. ★★★
- **Business model strong enough to solicit finance from an angel investor**: A business angel has contacted the young firm unsolicited! This never happens in the startup world, it is entrepreneurs that have to spend time and energy to pitch to potential investors. The success rates of being able to raise venture capital are low. This means that there is something about this startup and its business model that shows enough promise to attract investors. ★★★★
- **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 Accord'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 Accord to attract the best motivated and efficient employees 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. ★★★

WEAKNESSES (INTERNAL):

- **Non-independent CEO and inexperienced owners**: Kayla and Aran have no experience in running a business; this is a major disadvantage that must be overcome by finding business mentors, networking, researching and seeking and listening to the advice of those more experienced. They each must develop the required skills necessary to run a business (finance, marketing, operations and, perhaps, human resource management if the firm expands). There are advantages to Accord 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.★★★
- **Unit costs**: Enrich is priced at a 36 percent premium over its competitors. This show that its unit costs are too high and to become price competitive in the market, Accord must keep the unit costs low. However, it will be difficult to keep costs low for the following reasons:
    - Absence of economies of scale
    - High, per unit, distribution costs which increase significantly if chilled/frozen distribution and storage is required
    - They don't have their own factory and pay another manufacture to make their drink.
    - Natural ingredients are relatively expensive, especially when the ingredients are imported.
    - Marketing costs (averaged across units produced) to boost brand awareness are likely to be relatively high in comparison to more established brands in the market. ★★★★
- **Price**: Price is a significant weakness in the business model of Accord. Not only do the MNCs have an ever-widening range of drink offerings, their unit prices are much lower. Without achieving similar economies of scale to that of their MNC competitors, Accord cannot compete on price. This means that Enrich must have sufficient product differentiation to convince consumers their drink is worth the premium charged. Creating this differentiation (the USP) needs urgent attention, and marketing efforts should be focussed on this. ★★★★
- **Product**: The business is dependent on just a single product. To be so undiversified is incredibly risky. Further, and importantly, Enrich has a perception problem as evidenced by customer feedback. It is difficult to see how the firm can market Enrich as an energy drink. An energy drink that is based on 100 percent natural ingredients will not provide a similar "energy" boost (i.e., stimulant) that other energy drinks such as Red Bull or Monster do. The only common stimulant that is naturally sourced (and legal!) is caffeine found in such plants as coffee and tea. Enrich is caffeine free. From what we know of Enrich, there is no unique ingredient nor patented formula that gives Enrich an advantage in terms of a natural formulation that provides an energy boost. This confusion negatively effects the USP that

Accord's marketing is centred. The firm needs to rework its integrated marketing mix. ★★★★

- **Distribution:** Delivery costs are based on weight and location and is a substantial cost to the firm (and therefore to its customers). Accord can only be price competitive within a limited geographic region of its production facilities. Enrich is made from all-natural ingredients and needs to be chilled or frozen from processing plant to consumer. The cold chain involves the transportation of temperature sensitive products along a supply chain through thermal and refrigerated packaging methods and the logistical planning to protect the integrity of these shipments. There are several means in which cold chain products can be transported, including refrigerated trucks and railcars, refrigerated cargo ships, reefers as well as by air cargo. Transporting and storage of refrigerated and frozen products adds greatly to distribution costs. Retail stores will have limited fridge space available, and different brands will compete to be stocked. Enrich is not a leading brand and will struggle for this limited shelf space in retail stores. Distribution looks like a clear weakness in Accord's business model. It is a variable cost to the firm and as such needs to be factored into break-even analyses, cost-plus pricing, etc. ★★★★
- **Finance**: We have no indication that Accord has difficulty financing its revenue expenditures and, we know that current sales of Enrich are satisfactory. Taken together we can make an assumption that net cashflow is positive. However, a satisfactory external source of finance could not be found to expand output or capacity (the business angel comes with unsatisfactory terms and conditions). This is not an unusual situation for new businesses. Banks are the primary providers of debt finance, and in almost all circumstances will not lend to a new company unless collateral is provided. Considering most new businesses fail in the first few years, and the inherent weaknesses and threats showcased in the SWOT analysis, it would be highly risky for the founders themselves or their friends and families to guarantee such a loan. Both owners agree that the business needs to expand production and to achieve this objective external finance must be found. ★★★
- **Marketing mix**: To be frank, the marketing mix surrounding Enrich is a mess. To begin, there is disagreement about whether to market the product as niche or mass market. The firm needs to rework its integrated marketing mix for the following reasons:
    - Product: Is it an energy drink or a natural plant-based drink?
    - Price: Can price be made more competitive or can consumers be convinced that the premium is justified?
    - Place: Distribution is expensive at small scale and low brand recognition limits retail take-up of the product.
    - Promotion: How can low brand recognition be improved? ★★★★★
- **No corporate strategy or strategic plan**: The importance of a corporate strategy hinges on its being an effective means to allocate the firm's resources, establish business expectations and improve the firm's competitive position, as well as increase the value to its owners as something beyond the sum of its physical assets. Without such a plan it is unlikely that Accord will effectively allocate company resources, establish expectations (such a market share, profitability, new product launches), improve its competitive position and, ultimately, add value to the nascent business. A strategic plan could be produced by the senior managers of Accord relatively quickly. ★★

- **Lack of an operations plan**: There are a number of operational strategies that have been suggested in the case study, including the expansion of capacity and the proposed new production facility. 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 Kayla and Aran relatively quickly. ★★
- **Business structure – partnership**: An unusual choice of business structure for Accord's business model. A partnership structure is going to make it more difficult to attract investors (who usually seek an equity stake form their investments). Importantly, partnerships have joint and several liability for the business's debts. New businesses have a very high failure rate. If Accord goes into bankruptcy, then any of the two partners can be pursued by creditors for the entire debt owed by the firm. However, the dissolution of this business structure is relative quick and easy, and establishing a new business structure as a private limited company is straightforward in most developed countries. ★★
- **No vision or mission statement**: These are now needed to set the business's strategic objectives. Such statements can be produced by the senior managers at Accord relatively quickly. ★
- **No diversification**: Having just one product in a niche market means that the firm will be overly exposed to risk in the external environment it operates in. Reduced risk lowers the discount rate the firm will use in investment appraisal (e.g., net present value) and increases the likelihood such an investment meets expected rates of return (e.g., average rate of return). An example of such diversified risk would be the new tea-based drink. If the government regulated against the sale and marketing of all energy drinks to under 18-year olds, then sales of Enrich would decrease. Sales of the tea-based drink would become another revenue stream. Perhaps the most basic need for Accord to diversify is survival. By definition, a company that focuses on a narrow range of products will only have access to a finite number of customers. This is fine if the market as it stands is big enough to support several competing businesses, but if the pool of potential customers remains small, the cost of running Accord may outstrip the potential for revenue. In these circumstances, diversification into new product lines and other market segments may be essential to the long-term viability of this firm. ★★★★★

OPPORTUNITIES (EXTERNAL):

- **Partnership with a business angel**: It is unusual for a new startup to be hesitant about receiving finance from an angel investor, unless, of course, the terms and conditions were being perceived as being unfavourable. To expand, Accord needs finance. Given that Aran and Kyla are so inexperienced, it would be valuable to have a business angel with his or her business experience and large networks involved in the day-to-day running of the business. ★★★★★
- **Expand by investing in a new production facility**: Expanding the scope and scale of Accord's capabilities by opening a new production facility would increase its production flexibility and improve its productivity rates. Accord will be able to produce a greater product range and allow for a lifestyle brand to be supported. Sales should increase and per unit costs will fall. However, will such improvements in Accord's business model justify the massive upfront investment costs? ★★★★★
- **Diversification strategy**: The firm can market to other consumer segments, diversify into new products and diversify into new markets. Energy drinks are typically targeted at 18-34-year olds. The fact that Enrich is all natural and free from caffeine may mean that it could be successfully targeted at both a younger and an older consumer segments, health conscious athletes, pregnant mothers and yoga practitioners could all be consumer segments that Enrich could successfully target. New products can be developed such as the relaxing drink mentioned late in the case study. More products could be developed to create a lifestyle brand. 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. It's assumed that the distribution reach of Accord is tightly restricted due to high distribution costs. If this distribution disadvantage can be overcome (increased scale perhaps?) then new geographic markets can be opened up to the business and its products. 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. ★★★★★
- **Expand product range to support a new lifestyle brand**: The two most common measures used in a portfolio analysis are market growth rates and relative market shares. If RDM were to only manufacture Enrich the product would be positioned in the very low market share and slowing market growth quadrant of the BCG matrix; i.e. the product would be a 'dog' or a question mark at best. It is difficult to conceive that the market for energy drinks would enjoy high rates of market growth, year on year. It is also difficult to believe that Enrich could realistically capture significant market share from the large MNCs that dominate the beverage industry. 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 Enrich's share of the market, Accord needs to find a better model 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 produce under a lifestyle brand. ★★★

- **Exporting**: If a new production facility is located in a country that has efficient seaports, then this may enable Accord to deliver product to customers at lower cost. This would increase the firm'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 may be opened to the firm. If so, further economies of scale may be reaped. ★★
- **Growth of energy drink market**: Accord operates in the highly competitive and growing energy drink market. There is likely to be reasonable global growth for some time; strong growth in developing markets such as Asia; balanced by slower growth in the rest of the developed world. Accord should have a corporate strategy that accounts for these projections to capture more market share in a growing market. ★★

THREATS (EXTERNAL):

- **Current and future competitors in the market**: Accord operates in a highly competitive environment and they are highly likely to be geographically limited due to the high distribution costs associated with Enrich. The multinational corporations are Accord's greatest threat. MNCs dominate the market for energy drinks, making it hard for the new and small companies to compete. The fact that the market for energy drinks is growing means that MNCs with large and strong balance sheets will be willing to invest heavily to establish themselves and their brands as leaders in this market. This means that this market will be intensively competitive. The large MNCs have:
  - Vast experience producing and marketing drinks.
  - The advantage of attracting and retaining the best talent.
  - Scale and scope to have efficient, established and reliable supply chains and distribution models.
  - Unrivalled financial resources.
  - Refined business models capable of adapting to new segments and different niches.

  The market is saturated with a market concentration beginning to be dominated by a few global firms. MNCs have the size and distribution resources and knowhow to sell directly to consumers; rather than selling to wholesalers. This increases the profit margins of such energy drink manufacturers and/or makes their drinks more price competitive in the market.

  The fact that "multinational competitors were only just beginning to consider the idea of all-natural energy drinks" (lines 87-88) presents a smaller opportunity than the large threat such new entrants pose to Accord. The fact that ABC company will soon launch a new all-natural energy drink would be hugely concerning to Accord. If the firm's current competition innovates more successfully than Accord in either product or process innovation, then Enrich will lose market share and sales and profits will decrease. This also applies to the danger of new entrants with a better USP.

Accord does not have unique ingredients or a patented formula; i.e., the firm doesn't have any intellectual property. If Enrich is successful it can easily be copied and marketed by MNCs.★★★★★

- **Social media backlash**: Accord relies heavily on social media to promote and build its brand. An issue with such customer engagement and two-way interaction is that social media can become a source of negative publicity if consumer groups become disenchanted and disillusioned with the brand. Already there is significant confusion among Enrich's customers about the product which is being feedback to the company. This negative feedback would not only be reaching the managers of Accord, but everyone else in the social networks Accord has established. As a result, the Enrich brand could easily and quickly become damaged. Contingency plans need to be formulated to counteract such an occurrence, probably starting with a more diversified promotional mix. ★★
- **Recession in key markets:** Key markets in may be plunged into recession, perhaps from the effects of trade wars, 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 Accord 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. A contingency plan must be made for recessionary years if finance is going to be used to pursue increased production capacity or an expensive new investment opportunity. ★★
- **Beverage and energy drink product regulation**: More stringent regulation of beverage 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 ingredients, bottling, labelling and packaging must be chosen carefully and assessed both on their quality assurance practices and their ability to maintain consistent supplies to Accord. If ingredients are of low quality, Accord's products will be subject to spoilage and client dissatisfaction. In food and beverage products, product failure could result in costly litigation. Accord 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 Accord produces. Hedging is a way for Accord 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. Hedging does not come without cost and would further add to the firm's costs. ★
- **Price volatility of raw materials**: Raw ingredients are a relatively substantial variable cost of production at Accord. 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. ★

SUMMARY CONCLUSIONS

Accord has limited strengths and only vague opportunities as the strategic direction of the firm is unclear. The business model is unsustainable, and weaknesses abound, particularly in the firm's high unit costs and an incoherent marketing mix. The threats facing the firm are numerous and serious, especially in its competitive environment.

There are two main factors that provide hope for Accord. The first being that they have produced a product that has managed to generate "satisfactory" sales. There must be something in Enrich and its marketing that successfully appeals within a certain niche. This initial success is something to build upon. The second is that a business angel has courted the firm offering much needed finance and business expertise. Business angels are experienced and knowledgeable in establishing and operating businesses. They invest with their own money so do not make investments lightly. There could be something in the startup that warrants such faith, or it could just be that there is a dearth of suitable investment opportunities in ethical business startups.

Action that Accord needs to take now. The firm must align the component parts of the marketing mix for Enrich. Unit costs must be brought down so the product can be price competitive and be distributed more widely. Production capacity must be expanded to achieve economies of scale, and even then, consumers will need to be persuaded that the product provides value at a premium price. The firm cannot be price competitive with MNCs. Finance to increase production capacity and to promote the brand and increase demand for the product must be found. Accord must find ways to diversify (products, segments and geographic regions) to reduce risk.

However, even if Accord successfully achieves these objectives, there is the very real risk that a MNC beverage producer, with its deep pockets and industry experience, will compete away any initial advantage that the startup manages to gain.

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