

Assignment 2b: Levels and Lenses Report

“External Business Environment Analysis of Woolworths in Australia”

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Executive Summary

The external environment of business plays a major role in determining the strategic management and performance of any company. The present report aimed to analyze the external environment of Woolworths in Australia to identify and analyze the issues that are present in the external environment. Moreover, together with the issues and challenges, the aim of the report was also to identify the opportunities and threats that exist in the external environment of Woolworths in Australia. Woolworths was founded in the year 1924 and is an Australian-based supermarket chain of grocery stores that are owned by Woolworths Group. Woolworths is one of the renowned supply chains of grocery stores in Australia with a huge customer base. Based upon the analysis of the external environment, it has been found that the major challenge that lies in the external environment from the socio-cultural lens is the changing behavior of consumers and their spending habits. Similarly, from the political and legal lens, it has been found that the major challenge for Woolworth's political lens is the existence of corruption in Australia. Similarly, from the economic lens, the increasing minimum wage requirement and inflation rate are the two major challenges. Lastly, from the sustainability lens, it has been found that controlling emissions and aligning with SDG goals is a major challenge. In this way, the major threats for Woolworths in Australia mainly include changing customer habits, high inflation rate, high minimum wage requirement, and political risk. On the other hand, the major opportunities include favorable trade laws, stable GDP, independent buying behaviour of customers, and laws against corruption and bribery.

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1. Introduction

At present, business organizations mainly operate in highly dynamic and regularly changing business environments. Moreover, in today's modern world of gratification, the rapidity of changes affects organizations and its business more than the changes themselves can. Therefore, the business needs to analyze and consider the opportunities and threats in the external environment of business to ensure effective strategic decision-making in business. The main purpose of this report is to analyze the external environment of Australia for **Woolworths**. Woolworths was founded in the year 1924 and is an Australian-based supermarket chain of grocery stores that are owned by Woolworths Group (Woolworths group 2021). The external analysis in the present report shall be done using four different of analyzing the external environment of Woolworths in Australia. These four lenses mainly include sustainability lenses, sociocultural lenses, political/legal lenses, and economic lenses. This analysis of the external environment of Woolworths will assist the company in identifying and discovering what changes and issues can affect the business in the future.

2. Analysis of the external environment using different lenses

The external environment of the business is mainly present outside the business and over which the business has very less and no control. However, according to Zinecker et al. (2022), the external environment creates a significant impact on the operations and strategic management of organizations or businesses (Ziyadat 2019). Therefore, to evaluate the external environment of Woolworths in Australia, four different lenses have been used. These lenses mainly include the socio-cultural lens, political/legal lens, economic lens, and sustainability lens.

2.1 Socio-Cultural Lens

The term socio-cultural lens depicts the sociocultural environment of business. In a broad sense, the social-cultural environment of business mainly comprises the culture of the nation and its social system. The main factors that are evaluated while assessing a company based on a socio-cultural lens mainly include analysis of culture, cultural diversity, cultural trends, etc. Based upon the cultural analysis of Australia, it can be said that Australians mainly follow the western culture and the key cultural values of Australian people include respect for freedom and dignity of the individuals (Ziyadat 2019). Moreover, based on the Hofstede cultural analysis of Australia, it can

be said that Australian culture highly prefers individualism a score of 90% in individualism (as shown in figure 1 below). The term individualism here means the degree of interdependence Australian society maintains with its group members. This indicates that the decision of one consumer is less likely to influence the decision-making of another consumer, especially in the case of retail purchasing. Furthermore, through the Hofstede analysis, with a high score of 71% in indulgence, it has been found that Australia is mainly an indulgent country with a positive willingness of people to realize their desires and willingness to spend money the way they want (Ziyadat 2019). This can be identified as an opportunity for Woolworths as local Australians are less likely to control their spending.

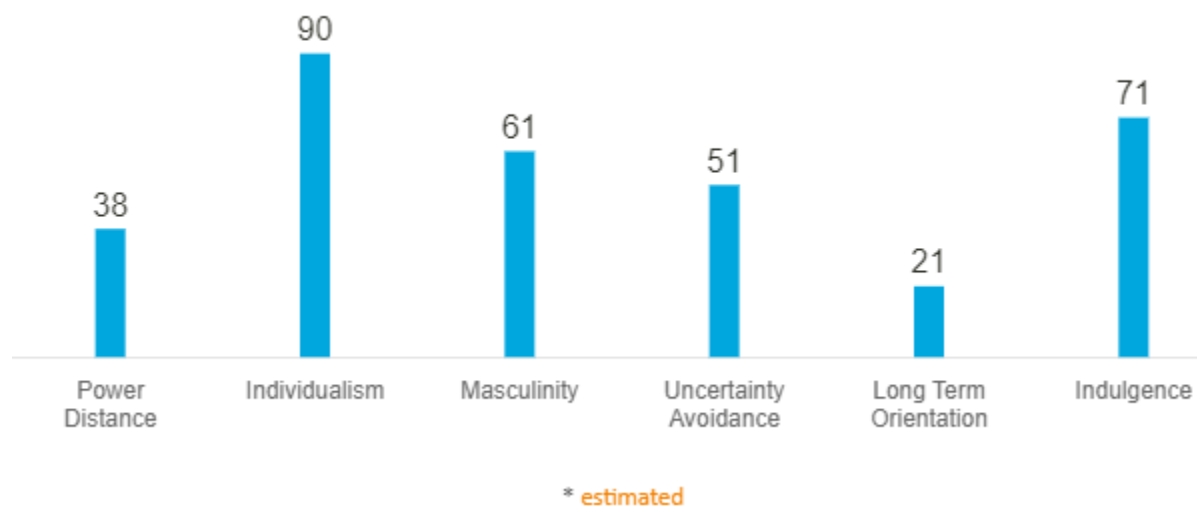


Figure 1: Hofstede Insights for Australia (Source: Hofstede Insights 2022)

Furthermore, using LAMP model analysis which comprises four key components i.e., logic, analytics, measures, and process, it has been analyzed that as a result of the outbreak of Covid-19 in recent past years, the buying habits and decision-making of consumers have changed significantly. According to McKinsey & Co. (2021), a significant change has been observed in the buying habits of Australian consumers before and after the outbreak of Covid-19. Primarily, the as a result of the outbreak of the Covid-19 pandemic, consumers have switched to healthy purchasing habits (as shown in figure 2 below). The consumer after witnessing the Covid-19 pandemic is making more deliberate choices. Before the outbreak of Covid-19, Australian consumers normally used to do most of their shopping without thinking much. However, after the pandemic, consumers have switched off their auto-pilot mode and are now making more conscious

shopping decisions (Shop 2022). According to Australia Organic (2021), consumers are a preference for organic food has increased by 56%. Furthermore, it has been found that the grocery has become more expensive due to high inflation which consequently resulted in rising prices by Woolworths.

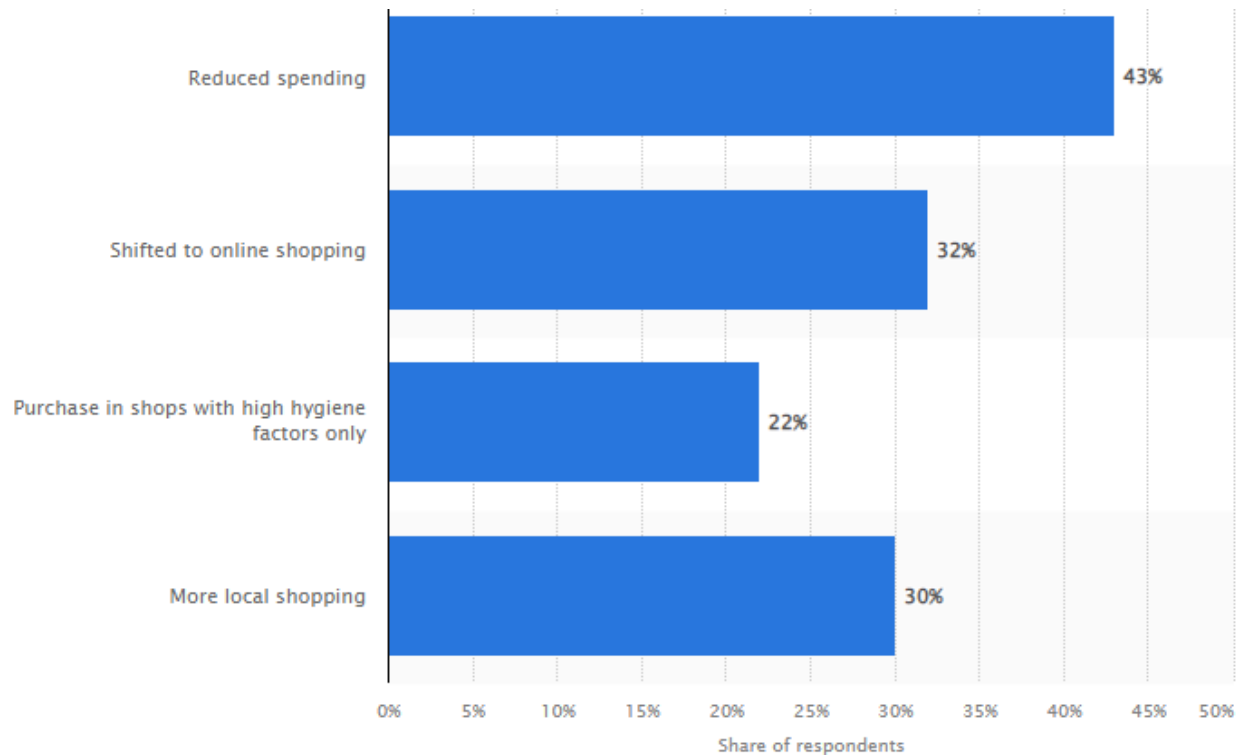


Figure 2: Change in Australian consumer buying behavior after Covid-19 (Source: Statista Research Department 2022)

2.1.1 Issues, opportunities, and threats from the socio-cultural lens

- ✓ Primarily, based upon the analysis of Australian culture using Hofstede dimensions, it has been found that Australians are likely to make independent decisions backed with a willingness to spend more due to score in indulgence. This indicates the **opportunity** for Woolworths as consumer behavior is indicating their willingness to spend more upon retailers like Woolworths.
- ✓ Secondly, the changing habits of consumers in terms of adopting more healthy habits and making conscious purchases indicate a **threat or challenge** for Woolworth as conscious behavior of the consumer will consequently push them towards making less purchase expenditure (Sharples 2022).

2.2 Political/Legal Lens

Australia follows rule-based international order for trade which indicates the presence of healthy trade relations between Australia with other countries. Moreover, Australia is mainly an outward-looking, trading and sovereignty trading nation. The Australian Trade Laws are designed in such a manner that they facilitate low tariffs and preferential access to different markets in Asia. Consequently, this makes Australia a favorable location for global and regional level trade through the tariff gateway (The Global Company 2022). Furthermore, political risks play a major role in the analysis of the political environment. These are various types of risks such as geopolitics, internal risk, corruption, social activism, and others. Based upon the analysis of corruption as a political risk, it has been observed that according to the measurement of the corruption perception index, it has been observed that corruption perception is consistently decreasing in Australia (as shown in figure 3 below) (The Global Company 2022). This indicates that in the upcoming period of five years, corruption is likely to reduce which implies a better political environment in Australia in the future five years.

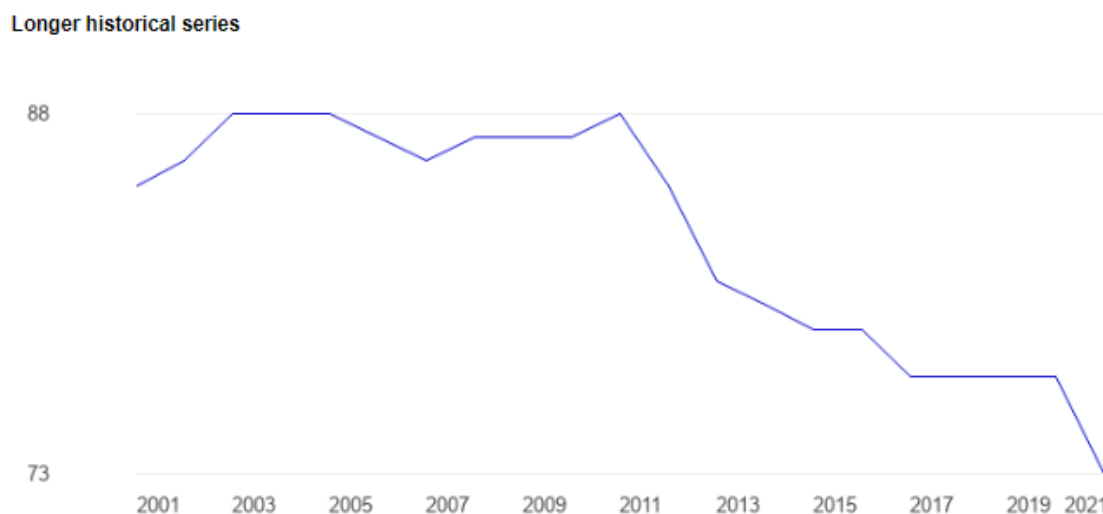


Figure 3: Corruption Index of Australia (Source: The Global Company 2022)

However, to resolve the issue of bribery and corruption in Australia, the Australian government has made various effective laws. For instance, the maximum penalties for bribing a foreign official or Commonwealth official have been set to a \$2,220,000 fine and/or imprisonment. Furthermore, the geopolitical environment also plays a major role in the political risk of Australia. The geopolitical environment of Australia is complex and mainly comprises risks that mainly

contagious (KPMG 2022). However, the Australian government has changed its consumer protection law and increased the threshold limit from \$40,000 to \$1,00,000 indicating that the suppliers are now required to review their agreements (Noble & Carter 2022). Furthermore, the companies like Woolworths are now required to be more focused on the quality of their products and services offered to the customers which can be a potential issue for the company. Moreover, there exists a political risk for Woolworths in terms of data privacy (as shown in figure 4 below).

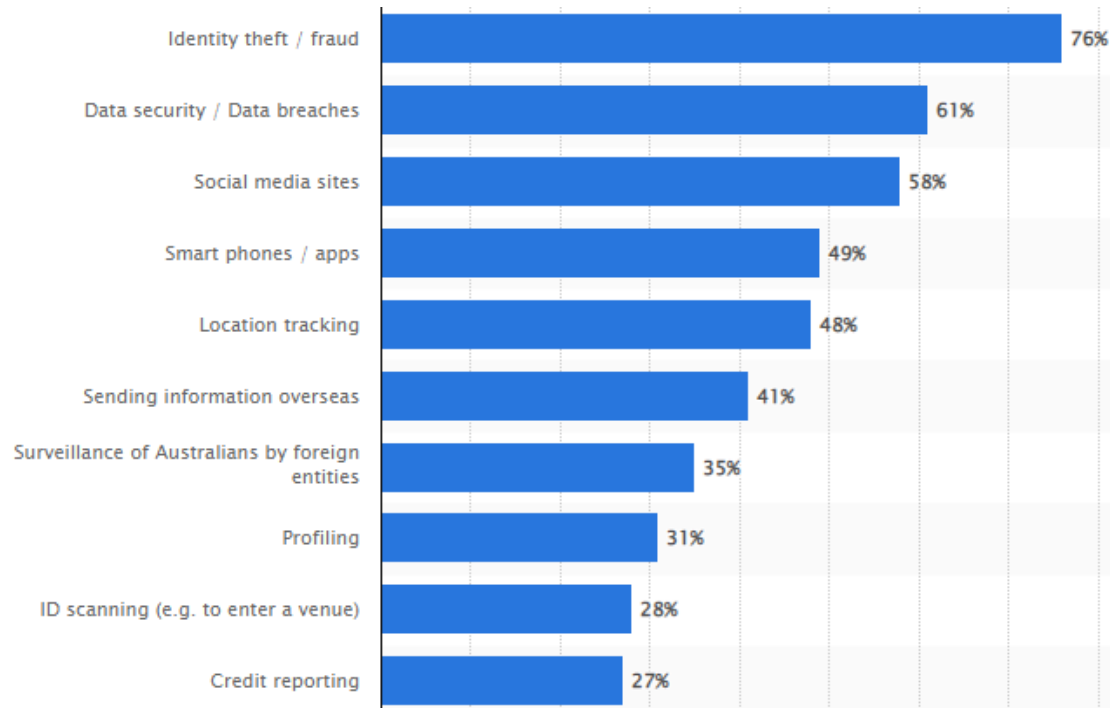


Figure 4: Privacy Risks in Australia, 2022 (Source: Granwal 2022)

2.2.1 Issues, opportunities, and threats from the socio-cultural lens

- ✓ Primarily, one of the biggest opportunities for Woolworths is the existence of political stability in the country through factors such as decreasing the corruption rate.
- ✓ Secondly, political laws related to the penalty for corruption also represent the existing fair trade environment for retail companies like Woolworths in Australia.
- ✓ However, in the future five years, Woolworths is likely to face the issue of privacy threat as significant political risk exists in the country.

2.3 Economic Lens

From the economic lens, the external economic environment of the country can be analyzed based on various factors such as aggregate economic indicators like GDP, inflation, unemployment rate, income, and various other economic factors. There are various economic factors in Australia that are likely to enhance or adversely impact the opportunities and threats for Woolworths in Australia. Primarily, Australia is witnessing rising inflation in the country which is directly likely to impact the purchasing power of the customers. Research reports indicate that the inflation rate is likely to increase by 7.75% by December (Mudditt 2022; Sharples 2022). In addition to this, the inflation rate is likely to rise in the upcoming period of the next two years which would directly create an adverse impact on the operations and revenue generation capabilities of Woolworths.

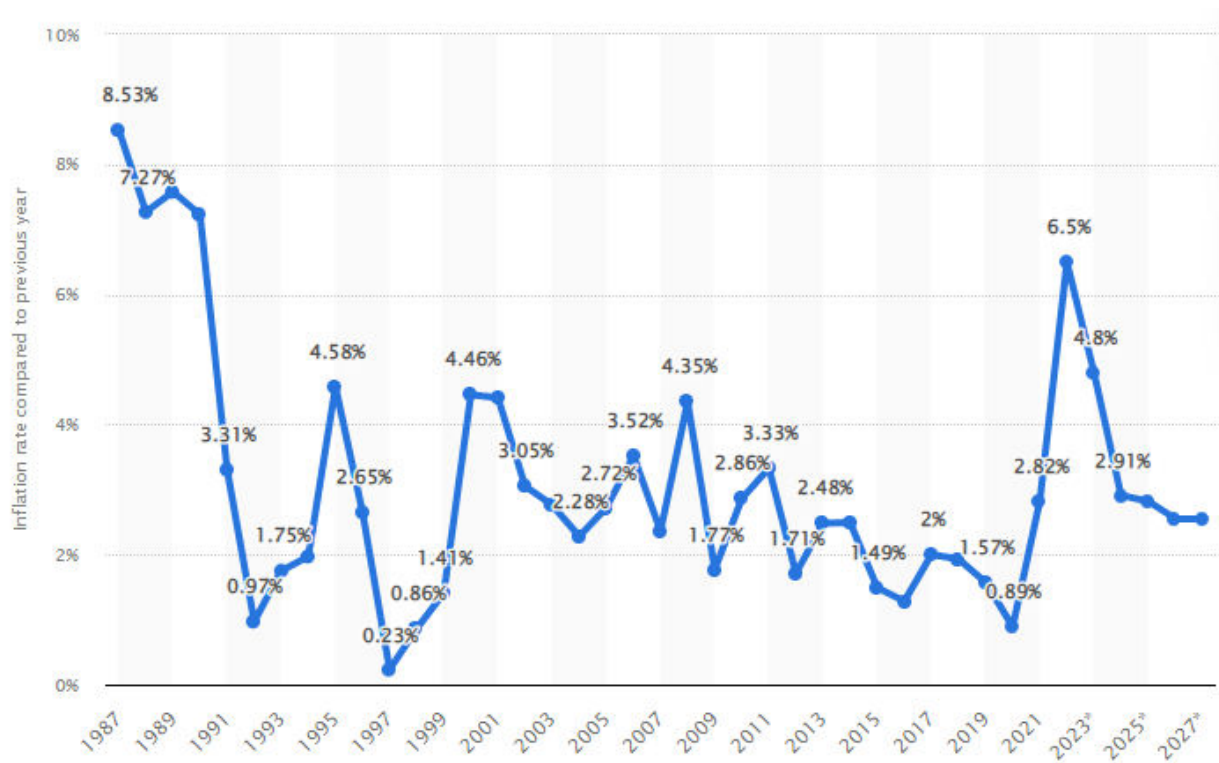


Figure 5: Inflation rate in Australia (Source: Statista 2022)

Similarly, the Gross Domestic Product commonly known as GDP has fallen negatively in recent past years especially in 2020 due to the outbreak of Covid-19. The impact of this negative GDP has been reflected in the standard of living and purchasing habits of consumers due to low income. However, in the future year of 5 years, it can be said that the GDP of Australia is likely to show a

stable growth rate with a slight increase in the GDP by the year 2027 (Statista 2022). This indicates the presence of huge opportunities for Woolworths in terms of the availability of customers in the upcoming period of five years. In addition to this, the minimum wage requirement has been increased by 5.2 by the Australian government as a part of their initiative towards protecting the rights of the employees (Evans 2022). However, this indicates the presence of an issue for Woolworths as it would create a direct impact on its labor cost.

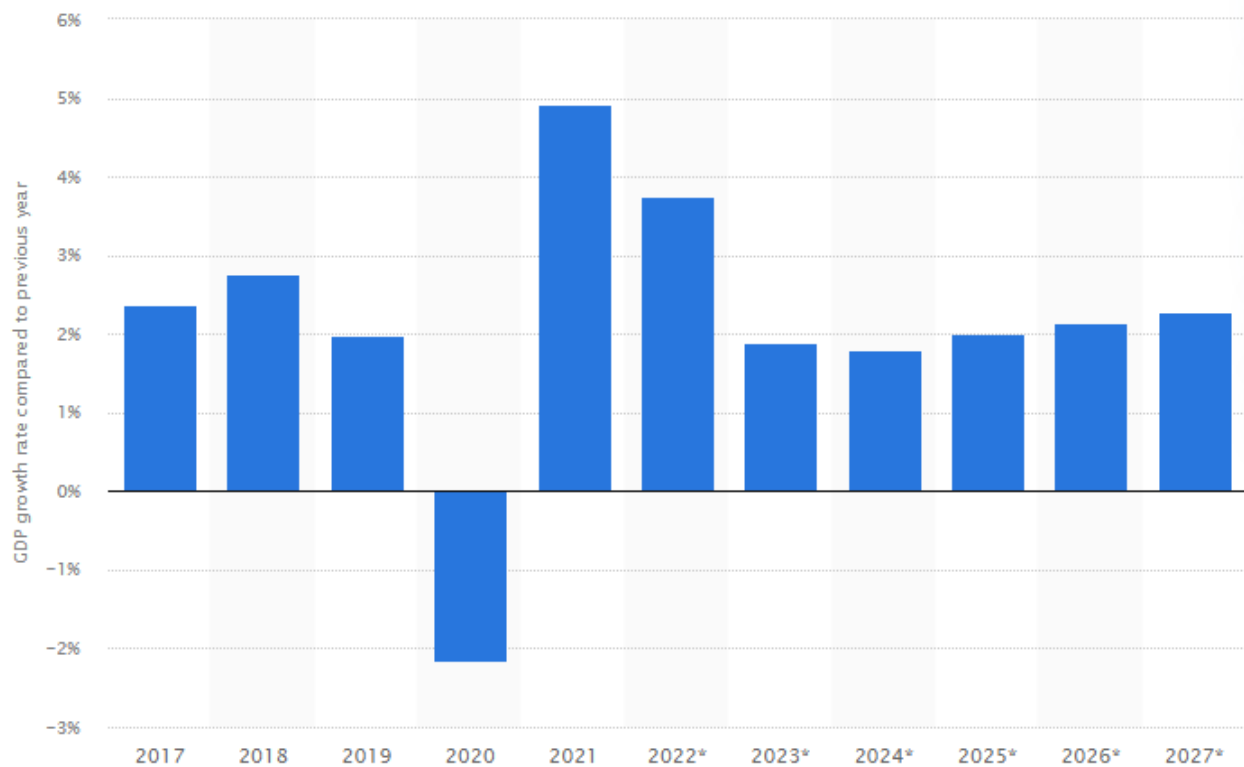


Figure 6: GDP Track of Australia (Source: Statista Research Department 2022, 2022)

2.3.1 Issues, opportunities, and threats from the socio-cultural lens

- ✓ One of the major issues that are likely to impact the operations and revenue generation capabilities of Woolworths in the upcoming period of five years is the rising inflation rate in Australia (Evans 2022). This would directly impact the purchasing power of the consumers due to which customers would be spending less on retail segments.

- ✓ Secondly, there exists a huge opportunity for Woolworths as the GDP of Australia is likely to be stable in the upcoming period of five years which indicates the likelihood of common people spending more (Statista Research Department 2022).
- ✓ Lastly, there exists a major threat for Woolworths as the minimum wage requirement has been increased by the government which indicates high labor costs for Woolworths in the upcoming period of five years.

2.4 Sustainability lens

Analysis of the company based upon the sustainability lens mainly includes analysis of the organization based on environmental factors such as SDG goals, sustainability issues in supply chains, or ecological issues or norms. Based upon the analysis of Woolworths in Australia from the sustainability lens, it can be said that Woolworths is likely to face major issues in terms of fulfilling the sustainable development goals formed United Nations. To be a responsible corporate citizen and attain a positive public image, Woolworths must follow and fulfill the SDG goals mainly related to climate change i.e., SDG 13 for combating the major issue of climate change. Similarly, there is a need to follow SDG 15 which ensures the protection of ecosystems, and land degradation (Whiteman 2022). To ensure sustainability and maintain the alignment of corporate activities with the fulfillment of SDG goals, the Australian government has implemented various environmental laws and policies to mitigate the risk of environmental issues mainly caused due to the operations of companies that produce and manufacture (Service Australia 2022). However, the major issue is that in the circular economy, the consumer is normally not stable and various activities like 80% emissions have been observed from human activities such as transportation. Therefore, maintaining sustainability is a major challenge for businesses and retailers at the local, national as well as regional levels (Salpini 2022). In this way, the major sustainability issue that can be observed from the sustainability lens is the challenge of reducing the emissions in the environment mainly caused due to human activities.

2.4.1 Issues, opportunities, and threats from the socio-cultural lens

- ✓ One of the major challenges is controlling the emissions of greenhouse and other harmful gases in the environment which causes climate change (Granwal 2022).

- ✓ Secondly, the implementation of other environmental laws is a threat as the failure of Woolworths to follow the norms and laws can lead to a huge financial penalty for the company.

3. Conclusion

The business operates in a highly changing external environment and therefore analysis of the external environment is very essential to identify the opportunities and threats in the external environment. The present report aimed to analyze the external environment of Woolworths in Australia. Based upon the analysis of the external environment, it has been found that the major challenge that lies in the external environment from the socio-cultural lens is the changing behavior of consumers and their spending habits. Similarly, from the political and legal lens, it has been found that the major challenge for Woolworth's political lens is the existence of corruption in Australia. Similarly, from the economic lens, the increasing minimum wage requirement and inflation rate are the two major challenges. Lastly, from the sustainability lens, it has been found that controlling emissions and aligning with SDG goals is a major challenge.

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