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Impact of the macro and micro economic environment on business strategy: a case study on Lonmin Platinum

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ABSTRACT

Business strategies are formalised to meet the long term objectives of the organisation while considering influences from the macro and micro economic environments.

A series of events preceding 2014 influenced Lonmin's business strategy. Most significantly – the persistent low platinum price, the Marikana incident in August 2012, the successful conclusion of the Rights Issue in 2012 and the premature departure of the Chief Executive, Ian Farmer during the same year.

Divestment in the mining sector limited access to capital funding. Rising utility and labour costs resulted in increasing unit costs. This compelled Lonmin to focus their objectives on cash conservation rather than growth. Lonmin's marginality would be tested against its peers considering the platinum industries cost curves and a reengineering of the business was required to ensure Lonmin secured its financial future (Lonmin Regulatory Release, 2012) in order to meet their banking covenants and attract investment.

The well-publicised platinum industry strike from January to June 2014 resulted in R4 billion losses in revenue for Lonmin (PWN, 2014). Prior to this strike, Lonmin was well on their way to delivering on the expectations of the board in terms of safety, productivity and cost reduction. This performance was expected to be maintained during the 2014 financial year.

In conclusion, the ramification of these events from 2010 would compel Lonmin to review the long term strategy and these revisions would remove approximately six million platinum ounces from the plan placing Lonmin at risk of value destruction, waning investor confidence in the company and the prospect that Lonmin will not recover from the down cycle.