EZY BUSINESS

THE WEEKLY 5

03/05/19

Here are the five business stories which have caught our eye this week:

Navigating Through the Fog of Uncertainty

First Quarter Profits	▼ 21%
First Quarter Orders	▼ 19%
First Quarter Cash Flow	▼ 21%
First Quarter Net Profit	▼ 13%
All Figures Against Q1 2018	

This week the boss of the world's largest commercial aircraft maker, Boeing, tried to provide some reassurance and guidance to company investors, amidst the fallout from two fatal air disasters involving its latest aircraft model. The company has opened up an internal investigation to identify the technical cause of the crashes in Indonesia and Ethiopia.

The plane in question here is the Boeing 737 Max 8, the most recent model of aircraft the company has manufactured. The company has produced and sold 317 of these planes so far and another 5,000 were on the order and production line waiting list. However, in the immediate aftermath of the second crash in Ethiopia, the company made the decision to ground its entire 737 Max fleet under the pressure of a collection of influential aviation authorities.

The results of the investigation picked up a technical issue with the aircraft that manifested itself in the plane's new anti-stalling software (this ensures that the plane does not nosedive upon take-off). The company revealed efforts to fix this piece of software, as well as provide an upgraded training package to all affected pilots.

In the meantime, the US firm has had to contend with a series of order cancellations which has dramatically affected its production schedule. The aircraft manufacturer has cut production delivery numbers from 52 a week to just 42. This has had financial repercussions for the firm as much of the expenditure on supplies and production infrastructure cannot be recovered.

This week the company also divulged for the first time some of the financial consequences of the fallout from the crashes. It acknowledges that the production schedule changes will amount to a $1bn "disruption charge", but held back on publicising its latest set of profit forecasts in light of future uncertainties i.e. Will production numbers ever recover? Will the company face any future regulatory penalties? How much will it cost to continue to roll-out new training packages?

In reference to Boeing, explain the difference between fixed, variable and sunk costs.

Discuss and explain the importance of quality control measures that a company like Boeing needs to put in place to ensure there are zero defects.

Discuss why this story provides an example of a limitation of producing financial forecasts.

The Guardian's Profit Turnaround

The Guardian

UK Daily Average Circulation	2000	13.6 million
	2019	7.6 million
Guardian's Average Circulation	2000	401,560
	2019	141,160

Since the first newspaper publication in the 17th century, print journalism has been used as a prominent vehicle for journalists to report and comment on the latest news at a local, national and global level. The accelerated growth of this industry through the 1900s reflected a wider convenience craving of consumers for a concise summary of the day's events all encapsulated within the palm of their hands. As the circulation increased, so did the scale of the industry and commercialisation of the newspaper trade led to a whole host of new titles.

The newspaper industry has had to weather a series of market changes over the last century. The arrival of commercial radio and rolling 24-hour TV new stations has increased the media choices available to the public and diluted the readership numbers of some of Fleet Street's finest bodies of journalistic work. The rise in the popularity of digital media and social media has only accelerated the decline of the industry.

The Guardian has been one of many victims of this market change – declining circulation, results in declining advertising revenue and this results in job cuts and a shrinking publishing scale. In the year 2015/16, the newspaper recorded an operating loss of close to £60m, with the closure of hundreds of journalist and editorial positions.

This week, the paper announced a wafer-thin operating profit of just £0.8m, to symbolise more than anything, the fightback from a mainstay in the newspaper trade. Like any struggling business outfit, a significant cost-cutting procedure was undertaken to increase efficiency and re-discover strategic focus. Another key feature, is that under the leadership of a new Editor-In-Chief, it recognised the need for change and attempted to diversify the business away from a declining industry to a booming one. As a by-product of this, digital revenues have increased to 55% of total revenues, whilst traditional print revenues have fallen by 19 percentage points to just 43% of total revenues.

To 1 decimal place, calculate the percentage change in the average daily circulation for UK newspapers between 2000 and 2019.

To 1 decimal place, calculate the percentage of total daily newspapers sold in 2019 that belong to the Guardian newspaper.

Analyse how two elements of the marketing mix for The Guardian newspaper may change as the company moves its focus away from print to digital publications.

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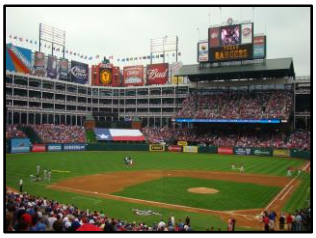
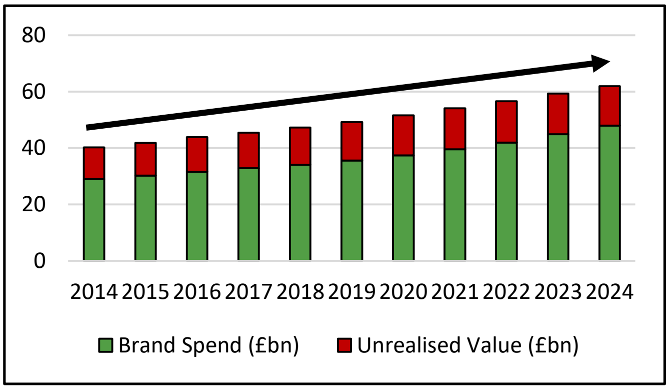
Global Sports Sponsorship Patterns



UK Brand Spend on Sports Sponsorship by Sector	
Sector	**Share of Spend (%)**
Financial Services	19
Automotive	14
Airline	13
Gambling	12
Alcohol	9
Soft Drinks	7
Other	26



This week research produced by the sports marketing agency, Two Circles, reported the growth in business investment into sports teams, franchises and leagues.

The agency reported that brand spend on sports sponsorship will grow to approximately £35bn by 2019, and this trend is projected to continue up to the year 2024, when brand spending is forecast to rise to £48bn.

Interestingly though, the report also attempts to establish the untapped potential that exists in those existing sports sponsorship deals. The agency's methodology attempts to measure the unrealised value in sponsorship deals due to the traditional marketing approaches still being used by broadcast and tournament partners.

The business rationale for investing to become a sponsor, is that it will expose the company's brand to the millions of avid sports fans around the world. This provides a potential lucrative "back-door" marketing route to a company's appealing target market. However, as more people frequent social media there is a growing pressure from TV broadcasters and sports teams to reflect this in the way they display their sponsored materials and posts. It is estimated that sponsorship assets are likely to grow in value by £15bn if the recipients of the sponsorship business upgrade the way in which they package and sell their sponsorships.

In reference to Carroll's CSR pyramid, explain how sports sponsorship deals can support the growth of the business and the market awareness of its brand.

The Deal's Off!

Blocked Merger Details

ASDA	Sainsbury's
Founded in 1949	Founded in 1869
633 UK Stores	1,415 UK Stores
165,000 Employees	186,900 Employees
15.5% Market Share	16.9% Market Share

In 2018, the second and third largest supermarket chains stunned the business world with a proposed £12bn merger deal to create the UK's largest supermarket chain on a market share basis. The move came as a surprise to many because of the tribal instincts which exist in this fiercely competitive market – many shoppers have their 'go-to brand' to visit when carrying out their weekly shop. Would this merger deal see the disappearance of one of the most iconic brands on the UK high street?

This week, the UK's main competition watchdog, the Competition and Markets Authority (CMA), announced that the merger would not be allowed to go ahead on the grounds of protecting competition, product/service quality and prices. The combined group would have had a market share of 31.4% and a combined store count of 2,800 stores across the UK. This would result in approximately one in every three pounds spent on grocery shopping will belong to this grocery group.

The blocked merger has significantly impacted the bottom line of Sainsbury's profits. Like-for-like sales growth fell by 1.1% over the traditionally strong festive quarter (Q4 2018). To the year ending in March, profits before tax fell by 42%. The failed merger is expected to cost the firm £46m in administrative costs.

Using Porter's Five Forces Model, discuss how a merger of this nature is likely to affect the five competitive forces in the industry.

Starbucks Employee Perks

In the US in 2014, the global coffee chain Starbucks, launched an academic partnership with Arizona State University. Through this partnership, the company has helped fund and support 18,000 employees obtain a Bachelor's qualification via the University's online degree programme.

Starbucks Employees	291,000

The company has most recently announced that it will begin rolling this programme out to eligible employees in the UK. However, only a handful of employees will currently qualify for this programme due to the criteria enforced by Starbucks and the University.

The individuals concerned must have worked for at least 3 consecutive months on a full-time basis in a company-owned store. Those that do qualify, will receive free tuition for the first phase of 40 different online courses starting from October. The courses will be accessible via an online platform and the structure of the course will feature recorded learning materials to ensure that workers can fit their studies around their working commitments, as well as their lifestyle. The course will also have a personal touch installed via the appointment upon enrolling of individual coaches and academic advisors to support them through their studies.

The company hopes that by offering employees the opportunity of free tuition it will reduce the opportunity cost associated with working at the company, as well as help improve employee retention rates within the business.

Discuss the HR benefits that Starbucks may receive from offering programmes such as this to their employees.

Discuss and explain which of the main motivational theories this type of offered programme would conform to.