EZY BUSINESS

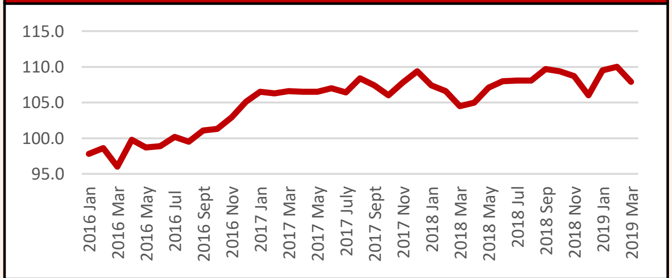
THE WEEKLY 5

17/05/19

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

Reporting Building Blocks

UK Construction Output in Index Form, Index 2016 = 100.00



The blueprint of any successful business is one that manages to stay relevant, embrace innovation and anticipate market trends and movements. This is because businesses need to show the flexibility to adapt to a rapidly changing market environment; remaining satisfied with the status quo will not cut the mustard commercially.

The UK economy itself has dramatically changed and this has forced firms to conduct their business activities in a different way. The UK's prowess in manufacturing has gradually eroded away, whilst its specialism in delivering professional services such as finance have grown stronger. The services sector now represents 80% of the size of the UK's economy (or Gross Domestic Product if you wish to be technical). Industrial sectors such as manufacturing and construction have retrenched to below a fifth of the UK's GDP value.

Firms that operate in the construction sector maintain the underlying heartbeat of an economy by creating and maintaining the infrastructure framework needed for firms to trade in. The industry employs 3 million people (10% of UK workforce) and contributes more than £110bn to GDP through new builds and refurbishment projects. Construction projects are often large in scope and scale, long-winded, expensive and subject to significant risk due to the extensive use of the supply chain. However, the long-term additions to output, productivity and income that this sector contributes towards is often understated. The ability for construction firms to manage these external risks affects the overall viability of undertaking the project in the first place.

This week the sector, as a whole, has come under intense scrutiny, as one of the leading construction firms in the UK made a startling admission. The boss of Skanska UK (firm that maintains the London Underground) has revealed in a radio interview to the BBC, that construction companies do not fully account for the full environmental cost created from carrying out large projects. The interview was a follow-up to the company's latest press release, in which the firm has pledged to be carbon neutral by 2045.

It was revealed that the firm only accounts for the direct costs associated with completing the project, but emissions released from the associated supply chain is not reported. The firm reported a carbon footprint of 35,000 tonnes last year, but it is estimated that this figure would increase ten-fold if wider supply chain emissions were included.

In reference to the information above, state why this example provides evidence against using Elkington's Triple Bottom Line Model to manage a business's environmental responsibilities.

HTC Smartphone Meltdown

First Android Phone in 2008	
2011 Global Smartphone Market Share	10.7%
2019 Smartphone Market Share	0.05%

The introduction of the Android operating system in 2008 has revolutionised the way that electronic devices are presented and used by people all over the world. The interface, and its accompanying applications, software and hardware have consolidated Android to the top of the popularity stakes with over two billion monthly active users across multiple devices.

The company that kicked off the Android popularity surge was the Taiwan-based firm HTC, with the launch of the HTC Dream 11 years ago. The smartphone received critical and commercial acclaim and raised the development stakes in the smartphone industry. Since then, of course, companies like Apple and Samsung have used their superior cash positions to expand into and steal the market share of HTC; derailing the first mover advantage theory.

HTC has remained a fringe operator in the smartphone industry, nostalgically appealing to the last chunk of the market that it still clings on to. The firm has spent the recent past focusing their efforts on more innovative proposition projects such as virtual reality hardware.

Therefore, it will come as no surprise to any market experts this week, that the firm has decided to retrench out of the Chinese smartphone market by pulling its products off the two largest e-commerce retailers – Alibaba and JD.com. Many see this as the beginning of the end for the firm in the smartphone industry as it tries to implement its long-term diversification strategy into niche markets.

It's not just the Chinese market that the firm is leaving behind, there is no place for the latest HTC phone models in traditional phone stores, leaving Amazon as the only mainstream third-party retailer in the UK still selling HTC handsets.

HTC	As at 31.03.17 ($000s)
Non-current assets	21,925,682
Current assets	45,187,275
Current liabilities	20,907,665
Non-current liabilities	403,624
Share capital	23,753,651
Retained profits	22,048,017
Total equity	45,801,668

Use the summary of HTC's Statement of Financial Position (Balance Sheet) to calculate the following to one decimal place where necessary.

- Current Ratio
- Gearing Ratio
- Level of Working Capital

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Richer Sounds' Changing Tune

richer sounds
Experience Better

British Entertainment Retailer
Founded in 1978
53 UK Stores
492 UK Employees
15% of Profits Distributed to Charitable Purposes

This week it was announced that the owner of Richer Sounds is about to reward loyal employees with a turnaround in the ownership structure of the company.

The firm that specialises in selling traditional electronic goods such as radios and TVs, has maintained a private ownership structure since the company was founded in the 1970s. The firm has a developed a cult following amongst tech. enthusiasts and even has a place in the Guinness Book of World Records for generating the highest sales per square foot of any retailer in the world. The close-knit family run feel that emanates within the company has facilitated the company's intimate private ownership structure.

The firm announced this week that it will take this one step further and establish a new employee owned trust scheme. The new structure will place the ownership of 60% of the company's shares in the hands of a trust. The trust will then hold and manage those shares on behalf of the employees. Employees stand to receive a consistent share of the company's profits under this type of scheme.

As to be expected, the existing majority shareholder stands to generate a return of close to £10m from the ownership transfer. It is estimated that Richer Sounds will generously reward employees with pay-outs of up to £1,000 for every year the employees remain at the company for. Further payments will be made for those employees that have dedicated decades of service to help the firm rise to this position.

Explain how the ownership structure of a company can help improve the image and reputation of the brand amongst its customer base.

In relation to Herzberg's Two Factor Theory, discuss the role that an employee-owned trust can have on the motivation levels of a company's workforce.

Summer is Delayed

Thomas Cook have released their half-year results for the first six months of 2019. The firm recorded a £1.5bn loss as summer holiday bookings have been put on hold across the UK economy. This reflects the growing uncertainty and underlying weakness in the trading environment. The unseasonably warm weather stretching across the UK and the crumbling value in the pound has damaged demand for holidays abroad.

Firms that operate in the travel sector have to contend with strong periods of seasonality, contributing to a traditionally weak first six months of the year in comparison to a strong second six months of the year. Despite that, investors still reacted sensitively to these results as the share price of the travel company plunged by 17% on results publication day.

To help ease these financial problems, the firm has secured £300m of funding from loan agreements to help consolidate its position in response to a weak consumer environment.

Discuss how each of the following is likely to affect the performance of a travel company like Thomas Cook:

Rise in the Price of Oil	Rise in the Pound's Value	Downturn in UK Weather

Asda's Ongoing Problems

It has been a turbulent quarter for the UK's second largest supermarket chain, Asda.

First up, the firm's £15bn strategic plan to merge with Sainsbury's was publicly blocked by the UK's leading competition watchdog, the Competition and Markets Authority (CMA). This shredded the firm's long-term strategy into pieces and brought the firm back to square one. This coordinated move was planned to present an opportunity to protect its market position and allow the firm to complete on more sustainable terms with the ruthless discounters including Aldi and Lidl.

Secondly, the supermarket announced that its gentle recovery in store sales has come to an abrupt end. The first quarter of 2019, marked an end to seven consecutive quarters of sales growth, with a drop in year-on-year sales by 1.1%.

Finally, the chain's parent owner Walmart plunged the future of Asda into uncertainty this week as revealed the preliminary plans to float Asda on the stock exchange in the coming years. This will mark a historic moment for British retail and raise serious question marks over Walmart's long-term commitment to the UK market after the failed merger deal.

Explain what type of merger the blocked deal between Asda and Sainsbury's represented.

Explain three aspects of UK competition law that aim to protect competition between firms in a market.