

08/02/19

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

## Serving Their Way Out of Trouble



The mounting piles of debt on the financial accounts of the public services and construction based company, Interserve, reared its ghastly head with a mighty vengeance this week, stinging shareholders that have held an active stake in the business for a considerable period of time.

The contractor provides a vast array of public services on the behalf of the government such as running large construction projects and providing local healthcare and cleaning services to people and businesses. This is seen as a cost-effective approach to delivering projects on-time and providing services with the required expertise demanded. However, the recent demise of competitor, Carillion, has put these types of companies and their binding agreements with the government under the spotlight.

Over the years the firm has become saddled with debt – rising to over £600m in the most recent trading update. How is this possible? The firm blames high-profile project cancellations and delayed construction contracts for the shortfall in cash, prompting the need to turn to external financial assistance to plug the accompanying financial blackhole. The firm's business model is slanted so much towards government contracts that it is the channel for 70% of the company's turnover. The firm's share price to collapse in the last year from over 100p a share to just 13p a share, whilst the value of the firm on the market has fallen drastically from £500m to just £17m .

This week the firm announced a rescue plan to cut its debt by 55% to £275m. This plan comes in the form of a debt-for-equity swap. This just means that creditors (lenders) agree to cancel certain debt repayments that Interserve are due to pay in exchange for the acquisition of new equity (shares). This strengthens the balance sheet position of the firm, whilst providing creditors with a more sustainable approach to managing the debt collection from borrowers.

However, existing shareholders stand to lose significantly from this as their shareholdings will be diluted and this could prove the stumbling block for this proposed rescue deal as it requires shareholder approval.

With this information in mind, discuss the form of business that Interserve represents.

Discuss some of the approaches that Interserve can use in the future to prevent cash flow problems arising again.

In light of recent events, discuss some of the pros and cons of the government outsourcing public services to other companies.

THE WEEKLY

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## Are the Wheels Coming Off?



Another week, another news agenda crammed full of Brexit related content detailing the intricacies of the UK's decision to vote to leave the European Union. The big headline story in the last seven days has been Nissan's decision to renege on its business pledge to proceed with manufacturing the fourth generation of X-Trail car models in their 7,000 worker strong Sunderland plant.

Back in 2016, when the referendum result was announced, many large multinational corporations raised fears that they may have to reassess production locations and cancel investment decisions in light of the uncertain future trading framework between the UK and the EU. However, the Japanese car manufacturer bucked this trend and placed its firm faith behind the resilience of the UK economy after this decision. They committed to building the new X-Trail model in the UK which would create almost 750 jobs. Many believe that the government played a key role in the firm making this decision by providing support grants of almost £60m.

However, last week Nissan announced that it would not be proceeding with this decision and would be making the cars in its existing Japanese plants instead of the UK. Even though the firm cited a series of explanations behind this move, most of which related to the deteriorating health of the car industry, many saw this as a sign of a company that could not commit to an investment decision in an uncertain economic climate.

Interestingly, this move also seemed to coincide with the first full week of the EU-Japan trade deal coming into force. Some say that Japanese firms have used the UK's free and frictionless access to the EU's single market in order to reach a customer base of 500 million. However, with the new standalone trade agreement with the EU this might not necessarily be the case anymore.

In reference to the PESTLE framework, discuss why it is important for firms in the car industry to establish a supply chain that has minimal exposure to trade frictions and barriers.

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## “The Netflix of Audio”:



In recent years, a lot of media fixation has been drawn towards the changing way that people watch and consume TV programs and films. The rapid rise of streaming behemoths such as Netflix and Amazon has dramatically reconstructed people’s viewing habits and raised their expectations of what they demand from the latest TV drama or sitcom that they are about to become immersed in.

However, this consumption change is not mutually exclusive to the TV market – the way people consume and listen to music and audio programmes is dramatically shifting too. For instance, 2018 was nicknamed by some as the “Year of the Podcast”. This is because it is estimated that six million people in the UK listen to at least one podcast every single week – a 57% increase on 2016’s figure. Many media companies and TV programs have or are in the process of releasing brand new podcasts to move in line with the direction of the market and provide follow-up content for their programs.

It seems it is not just those companies that are adapting to this apparent market change, this week the extremely popular streaming service Spotify announced its latest move to venture into this growing market. The Swedish firm announced its acquisition of Gimlet Media and Anchor, both of which have developed significant platforms in which podcasts are published on. This brings the firm’s spending on podcast-related investments to almost \$500m.

In its latest quarterly earnings report, the firm announced it had just turned over its first quarterly profit with positive cash flows. So the question is, just why would such a prominent music streaming service commit to this sort of external investment in times of rising profit? Could this disrupt the firm’s profit momentum?

First and foremost, one of the significant barriers to growth and profit that the firm has to contend with over the years has been the pernicky and costly process of negotiating license agreements with record labels. This has meant the firm has burnt through investors’ cash far quicker than they would ordinarily like. Podcasts create a relatively quick and easy way of generating a following and a tangible return.

Secondly, it is hoped that the existing software and algorithms that Spotify use to create suggested and personalised music playlists for users can be transferred to user’s podcast libraries. If this can be achieved it will provide the firm with a strong competitive advantage over rival firms such as Apple Music and Tidal.

Finally, podcasts provide Spotify with the leverage to generate and build higher advertising revenues. According to industry analysts, two thirds of podcast listeners in the UK are estimated to be in the 16-34 age bracket, with advertising revenues generated from this age bracket to reach \$2.5bn by 2020. The provision of a podcast platform may help the firm attract and retain a younger audience with the average duration spent on the Spotify platform increasing due to the extensive length of podcasts in comparison to the stream of Drake’s latest single.

In relation to Ansoff’s Matrix, identify and discuss the type of strategy that Spotify are pursuing by introducing a podcast platform to its existing service.

## DIY SOS:



This week, the Swedish furniture manufacturer Ikea announced its latest innovative move to provide credit flexibility to customers.

The firm has announced that it will offer some customers the option to lease some of their furniture sets temporarily rather than purchasing these items permanently. This scheme being piloted by the firm in some countries enables customers to rent, look after and then pass on the furniture set after their lease has expired.

This business decision provides customers with greater flexibility over the terms at which they consume the company’s furniture, but it can also help the firm improve its own ecological footprint and increase the sustainability of its own business model.

This added business flexibility being extended from Ikea to their customers fits in nicely with the cyclical refurbishment plans of most household owners and is an idea that is likely to be replicated across other firms in the sector if it proves a hit with customers.

Discuss how this leasing option is likely to affect each of the following ratios for Ikea:

Stock Turnover

Receivables Days

Gearing Ratio

In relation to Bowman’s Strategic Clock, discuss how this move is likely to affect the firm’s strategic position within this model.

## Taming the Beast:



This week, the company Monster Beverages lost out on its trademark battle against a small US pizza parlour called Monsta Pizza. The row emerged over the striking similarity that exists between the names of the two companies in the food and drinks market.

The US beverage company, that is behind some of the most popular brands of energy drinks on the high-street, claimed that the pizza parlour has been driving sales from the use of the term ‘Monsta’ in its name and accompanying promotional material. This might sound like school playground stuff, but the drinks giant claimed that its customer base has built up an association with the term ‘Monster’ and therefore might be led to believe there was some business link between the two. The small pizza parlour defended the use of the name on the basis that it is derived from the fact that it cooks its pizzas in large ovens in the shape of a green monster. This has become synonymous with the firm at local events and stalls.

The energy drinks firm appealed to the Intellectual Property Office (IPO) to look into this matter and the bid was roundly rebuffed by both the IPO and the US Court of Appeal. However, this has led the small pizza firm with spiralling legal costs and lost business focus which have likely affected the bottom line of the business.

Discuss the technical difference between a trademark and a copyright.

Discuss the grounds by which a product, idea or slogan can be trademarked.