There is high demand for technical expertise in finance

The reality of business objectives

Luke Perry investigates what objectives look like in real life, using a range of recent examples

In his spring 2018 statement, Chancellor of the Exchequer Philip Hammond said the UK economy will grow faster this year than previously forecast. While no one can be sure exactly what Brexit will mean for UK businesses, the prospects for certain industries such as technology are looking healthy.

Growth

Financial technology (fintech) is set to dominate the future UK economy. According to the London Stock Exchange, UK-based fintech firms are expecting 88% growth over the next 3 years. The government wants the UK to lead the world in fintech development.

There is high demand for technical expertise in finance. The finance industry still faces challenges in the aftermath of the economic crisis of 2008, as well as uncertainties over Brexit. Many banks aren't equipped to cope with the digital revolution, as shown by TSB's disastrous attempt to upgrade its systems. Many TSB customers were unable to use online and mobile banking services for days, and the ensuing chaos has resulted in a fall in customer numbers.

How can growth be achieved?

A growth objective means expanding a business. Growth is seen as an important way to increase profits and build market share. This can take place in a number of ways:

- **Sales growth**: a business may simply want to see sales grow, which may not necessarily mean an increase in profits. This often takes the form of opening more branches or outlets.
- **Increase market share**: this is where the business aims to increase its value of sales as a percentage of the market. A good example of this is the recent move from Sainsbury's to merge with Asda in an attempt to compete with the significant market share of Tesco.
- **Buy the competition**: this is a way of achieving instant growth and is popular in technology industries.

Survival

Homebase has 250 stores and employs 12,000 people in the UK. Australian firm Bunnings bought Homebase in a £340 million deal in 2016 and has been attempting to reposition the brand.

However, poor trading performance at Homebase has left Bunnings with an underlying loss of around £100 million, so it is no surprise that the company has adopted survival as its key business objective. Bunnings launched a review that could see up to 40 Homebase stores shut and 2,000 jobs lost.

How can survival be achieved?

An objective of survival usually means attempting to recover from a loss-making position to move towards breaking even. It usually has to be achieved within a short timeframe, because the loss-making is so significant that the business is bordering on a cash flow crisis and/or administration. Therefore, survival often involves a number of short-term strategies:

- **Store closures**: a company would look to close its loss-making branches, leaving only profitable stores.
- **Rationalisation**: cut back on staff hours to reduce costs. Staff could work a 3- or 4-day week. This can affect customer service, but significantly decreases costs in the short-term
- **Reduce expenditure**: if the business slashes all non-emergency spending such as marketing or bonuses then the business can cut costs. In the medium-to-long term this could backfire in terms of loss of sales and market share.
- **Destocking**: a clear sign that a business is struggling is that it reduces its levels of stock. The benefit is that it can only stock the most popular products, but risks losing customers who cannot find what they are looking for. The image of the business may be affected.

Image

In the year up to July 2018, Burberry destroyed £28 million worth of its unsold fashion and cosmetic products. The move backfired, with pressure groups highlighting the poor ethics behind the decision. The company has now halted the procedure, and the cost of the damage to the brand image is said to run into millions of pounds. However, the practice is actually common across the retail industry in order to protect intellectual property and prevent illegal counterfeiting

How can image be improved?

Image really focuses on the brand and improving the identity of the business. There are a number of ways that businesses can attempt to achieve an improved image.

- **Promotional expenditure**: a marketing budget is essential in order to grow brand recognition. This could be through celebrity endorsements, which have been used so well by Nike over the years, or through sponsorship deals.
- **Patents and copyright**: the process of protecting ideas and inventions has been used successfully by Dyson, which has built up a strong brand over the years. Features of its products that have been protected include the rollerball and bag-less vacuum.
- **Stock control**: this is common in the retail industry — limited supply of the product allows the price to be higher.

Profit

Tesco aims to achieve an extra £2.5 billion of UK sales through its takeover of wholesaler Booker. It now has over 27% market share in the UK supermarket industry, and is aiming to take on Lidl and Aldi with the launch of its own discount retailer Jack's.

How can improved profits be achieved?

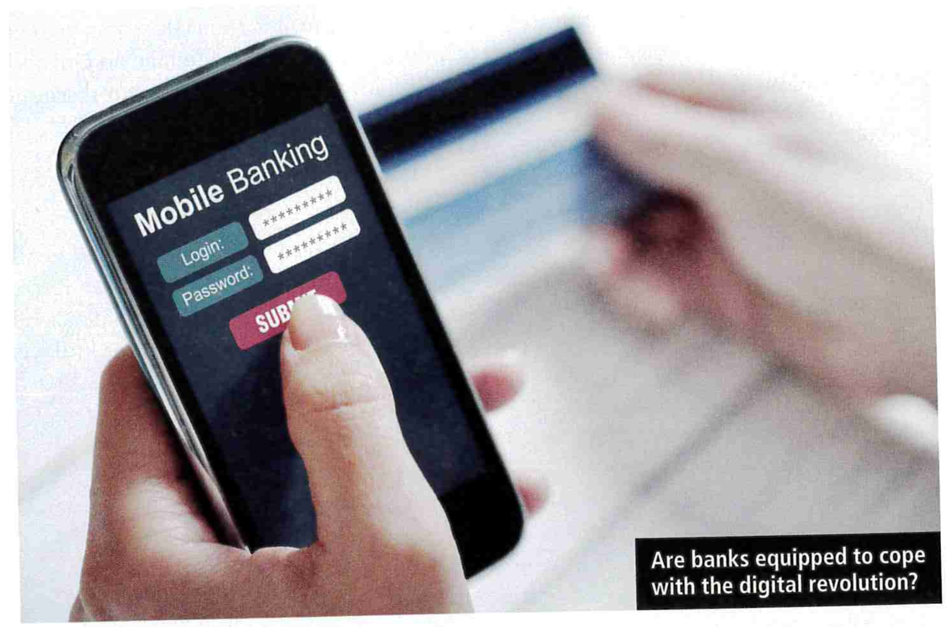
More profit is a long-term target for all businesses, particularly plcs such as Tesco, which need to answer to shareholders who want to see improved dividends. Profit is achieved after costs have been deducted from revenues. Therefore, any strategies focus on these two elements:

- **Cut costs**: a company could look to cut material costs in a number of ways. It could be via economies of scale or possibly through negotiating a better deal with suppliers. Large companies like Tesco can use their bargaining power to clinch the best deals.
- **Increase prices**: this sounds quite simple, but the elasticity of the product needs to be considered. The business could increase the price and actually lose sales and overall profits.

Most effective objective?

There is no doubt that more firms are pursuing an objective of survival, given the

Homebase has been forced to adopt survival as its main business objective highly competitive market conditions faced by many. However, it really does depend on the business as to the most effective strategy. No management team wants to adopt an objective of survival for the medium or long term, but for certain high street retailers this is currently the only viable option. But if a fintech business was to adopt an objective of survival today, it would be missing out on the huge growth potential in the industry. It depends on the external factors that a business finds itself in, and the timing of any change of objective will be essential for success.



Are banks equipped to cope with the digital revolution?

Luke Perry is head of business and economics at Balcarras School, Gloucestershire.

case study

Next

The last few years have proven to be highly challenging for the traditional UK high street retailers. Many of the more established firms have announced store closures (Marks and Spencer, House of Fraser) and some have fallen into administration and disappeared from the market completely (Woolworths, BHS).

Is Next next?

One store has managed to maintain its position, despite having an apparently flawed strategy. Next plc has always positioned itself in the middle of the market, and this is arguably a difficult position to be in. It has come under attack from competitors such as Primark and New Look, which have adopted cost-leadership strategies.

Practice exam question

How important is it that Next makes profits? (16 marks)

BusinessReviewExtras

Check your answer at www.hoddereducation.co.uk/businessreviewextras

Next has long failed to have a significant unique selling point (USP). Its clothes are of reasonable quality and have reasonable price points, but cheaper and more differentiated products are available elsewhere.

Next success?

Interestingly, Next now raises less than 50% of its revenues from its physical stores. The shift to online sales was built upon its success with the Next Directory from over 30 years ago. The success of its e-commerce business has been based on getting to the market much quicker than rivals such as Marks and Spencer. While Next is facing stiff competition from the likes of ASOS and Boohoo, the target markets are different, and Next's online sales of £1.9 billion match those of ASOS.

However, while Next's full-price sales are up and its stock levels are down, the most significant factor is that its competition is really struggling. This can be seen as either an opportunity or a threat. Also, while the high street is facing many challenges with high rents and business rates, Next itself is in a strong cash position. This allows it to invest, while its department-store rivals are cutting costs to the bone.

Phil Waterhouse