Joe

Welcome to the ACCA, Association of Chartered Certified Accountants podcasts on commercial awareness. In this session we are going to use the tools discussed in the introductory episode and apply them to Corporate sector.

Clare

We will be looking at firms within the corporate sector and how you can focus on their mission statement, core values, key drivers, finance and risk profile to develop your own commercial awareness.

Let's start by exploring what kind of companies operate in the corporate sector and what the roles are for accountants in these organisations.

The term 'corporate sector' encompasses a range of sub sectors including construction, energy and utilities, retail, manufacturing, IT and communications, transport and distribution, pharmaceuticals and the leisure industry. The roles for accountants in these organisations are varied, covering financial management, business analysis, tax and asset management, formulating business strategy or developing IT infrastructures.

Because of the diversity of these sub sectors you'll find that companies operating within them face a wide range of different business challenges. With the financial services sector a key issue that impacts on everyone is regulation, but it is very difficult to find an issue that will impact on all organisations in a similar way in the corporate sector. An energy firm operates differently from a leisure organisation and so it's very unlikely that they will face the same threats. Therefore it is important when preparing for interviews that you research each organisation thoroughly and are aware of the key issues relating to that industry.

Joe

Let's look at a range of examples of different organisations working in the corporate sector. Let's start with T Mobile and how their mission statement reflects their commercial offering:

On 1st July 2010, T-Mobile UK became part of Everything Everywhere Limited - the company formed through the merger of T-Mobile UK and Orange UK. Everything Everywhere's mission is *"to bring our customers closer to the people, places and things that matter most to them, giving them instant access to everything, everywhere."*

So what does that actually mean? People are segmented into family, friends and workmates, places would be home, work or holidays and the things that matter to them most could include music, email, photos and football scores. It suggests Everything Everywhere care about their customers' experience.

So have Everything Everywhere delivered on their mission? Well, T-Mobile were the first mobile providers in the UK to introduce Pay as You Go plans making owning a mobile phone more affordable, which was a good start. Everything Everywhere's call plans are designed to help you keep in touch, and with the introduction of 4G in October 2012, Everything Everywhere continues to push the boundaries of mobile technology. They have committed to investing £1.4 million a day until 2015 to roll out 4G connectivity, aiming to reach 98 per cent of the UK population by the end of 2014, which shows they are working towards their mission statement and striving to give their customers instant access to everything, everywhere.

Clare

Ok, let's take a look at our second example, Unilever – one of the world's leading providers of fast moving consumer goods. The company's vision is to *"help people feel good, look good and get more out of life with brands and services that are good for them and good for others."*

This mission statement is a simple vision which is clearly reflected in their product range. Although Unilever as a brand isn't very prominent, their product brands are well recognised such as Dove, Birdseye, Joe and Jerry's, Magnum and Slim Fast. Unilever proudly declares that everyday people are choosing their brands 'to feed their families and clean their homes' and as a result could claim to be delivering on their mission.

They are also demonstrating that the services and brands they offer are good for their customers and good for others. In a ten year journey towards sustainable growth which began in 2010, Unilever aims to halve the environmental footprint of its products.

Joe

Now, let's move on and take a look at what an organisation's core values tell you. We're sure everyone has heard of Google and used its search engine, but not many people know about their core values. So what are those core values and how do they help build the culture within Google?

Google's Ten Things is a list of Google's values and how they apply to the work of the organisation. This information can be found on the website and rather than listing all ten we've just pulled out some examples.

Their first value is to *"focus on the user and everything else will follow."* Since it began Google has always focused on providing the best user experience possible, which is why the interface is clear and pages load instantly. It is because of this that Google has built the most loyal audience on the web.

The second is that *"it's best to do one thing really, really well."* In Google's case - its search. They've used the power of search to then branch into other areas such as Google Maps.

The third is that *"fast is better than slow."* Google must be the only company out there that wants its customers to leave the website as soon as possible. Their staff are constantly working on ways to make searches faster.

These values demonstrate the culture at Google and give you a clearer indication of what qualities they are looking for in their staff. They want to employ people who will be able to fit in with these values.

Like Google, many of the organisations that operate in the corporate sector have developed a range of products and services. Some companies have diversified into new areas and product development is seen as key to staying ahead of the competition.

As an example, just look at Walmart. They are a retail giant using their customer loyalty to diversify and extend their product range to groceries. By understanding the product life cycle, Walmart are able to identify new areas to move into. In the US, they have also launched 'Walmart Neighborhood Markets', smaller version of their supercentres, which offer customers an alternative to giant retail outlets.

Clare

The product life cycle is an important tool for corporate sector companies. This can be tracked through using the Boston Consulting Group Matrix, or the BCG Matrix, which we discussed in detail in the first podcast of this series.

We can apply this matrix to Sky. One of their core products, which could be called the cash cow, is Sky TV. You can subscribe to a range of packages including movies, sport and lifestyle. However, due to competitive pressures Sky has invested in new products such as Sky HD, Sky 3D, Sky+ and Sky phone and broadband. Sky 3D could be seen as a 'star', no doubt a lot of money has been invested into the product and it has the potential to revolutionise how we watch TV. Have a think about what the question mark and low growth products might be?

Again, down to the diverse nature of the corporate sector, key drivers will impact differently on each organisation. The key drivers are the internal or external forces that impact on the organisation's strategy.

So, what other drivers are there in the corporate sector?

Globalisation is always a topical driver. An organisation like Google embraces globalisation. For them it provides the opportunity to enter new markets and increase their market share. For other industries it has meant becoming more flexible and looking at making changes to their product in their home market and possibly moving to other markets to make a profit.

Manufacturing is an example. Many manufacturing firms in the UK cannot compete on price against countries like India and China where the cost of labour and overheads are considerably less. Instead manufacturing firms have to look at new ways to stay competitive, such as quality and design. Globalisation has also had a similar impact on the farming industry. Many farmers find it difficult to grow and sell their produce competitively against imports from the developing nations. So they have begun to look at new ways of generating income through diversification and collaboration.

Joe

Another key driver is the current economic climate. Cash flow pressures are significant for small and medium sized enterprises, who are finding it harder to gain access to finance from banks.

Businesses are having to alter their practices to ensure good liquidity, and some of the ways they are responding to this driver are by:
- doing more homework on potential clients – a good client goes beyond just placing an order, they also need to be able to pay for the work
- considering whether any fixed costs can be replaced by costs that vary according to sales
- considering other sources of finance such as Government schemes and Business Angels
- and above all having a strong business plan – laying out objectives in the short, medium and long term

Something else to consider is competition. Whatever industry you work in you are surrounded by competitors and it becomes hard to differentiate yourself. Sky's previous competitors used to be cable providers such as Telewest but now BT and Virgin Media, through the acquisition of NTL, have also entered the market. There is fierce competition within the airline industry between British Airways and Virgin, EasyJet and Ryan Air; in the IT sector between Microsoft and Apple, IBM and Dell; and more commonly between the supermarkets – Tesco, Asda, Sainsbury's and Morrisons.

Competition impacts on business, for example, the recent merger between TNT and UPS fell through in January 2013, partly because combined, the two companies would have 35% of the UK parcels market and would be a formidable competitor to Royal Mail. UPS will have to pay TNT a fee of over 200 million euros, for breaking the takeover deal.

And don’t forget legislation, a driver that firms always have to take into account. Tesco have been at risk of upsetting the Competition Commission by building large hypermarkets and forcing out local businesses. The energy companies are at risk of being hit with ‘windfall’ taxes when they record high profits. Microsoft has been accused of running a monopoly and has been fined in the past.

Clare

Now, let’s look at the finance and risk elements that are particular to the corporate sector. Many of the larger firms within the corporate sector are listed on the Stock Exchange.

So, what are the advantages to having shares listed? Firstly, it provides the company with the opportunity to raise more equity finance by issuing fresh shares to new shareholders. But there are also risks, as the value of your shares depends on market conditions, as we saw with BP. In November 2012, BP were fined $4.5 billion for the Gulf of Mexico oil spill in April 2010, and their share prices fell considerably as a result. At ACCA, we know that understanding risk is essential, and it is covered in our exams in P1 Governance, risks and ethics.

Investors anticipate future growth and declines but ultimately they will expect a return on their investment. When investors or potential investors feel the current management team is not providing an adequate return they may seek change in the form of a new company director, a new management team or even a takeover. Takeover bids are commonly known as ‘Mergers and Acquisitions’.

All of these can affect share prices. In September 2012, BAE Systems and the European Aeronautic Defence and Space Company shares both dropped a day after they revealed they had entered merger talks. BAE Systems shares fell by 7.3 per cent, and the European Aeronautic Defence and Space Company shares fell by 10.2 per cent, and as UK, German and French governments all have stakes in the two companies, politicians also took note of this merger proposal.

Another example is that of Sir Stuart Rose, former chief executive of Marks & Spencer, who has recently become chairman of Ocado. This move was welcomed by investors as a major vote of confidence in the future of the online grocery retailer, sending its shares up by more than 6 percent.

Joe

Some takeovers are agreed or recommended bids. The company is happy to be taken over as it is in the best interest of the shareholders. However some are not. If the bid is rejected then it becomes hostile. The bidder can either withdraw or continue in its efforts to persuade the company shareholders to sell their shares.

For example, in November 2012 Netflix adopted a 'shareholders rights' plan to ward off a potential hostile takeover from investor Carl Icahn. The shareholder rights plan would flood the market with newly issued shares if anyone buys more than 10 per cent of the firm.

You can find out more about the stock exchange and evaluating company success in the supporting documents.

Clare

This brings us to the end of the ACCA commercial awareness podcast on the corporate sector. The one thing that you should take away is an understanding of the diversity of this sector. All the organisations face varied issues and as a result it's important that you research any company that you are thinking of applying to and gain a better understanding of the way it operates.

Thanks for listening. For more information about ACCA and to find the other podcasts in this series, go to www.accaglobal.com/ukgraduates.

Goodbye

Supporting documents:

- Terminology Guide
- How to read an Annual Report
- How to read the Financial Pages