

Davis Service Group - Brief

Managing business throughout the business cycle

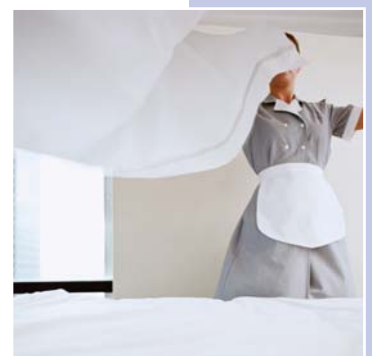
Introduction

Global economic activity has reached highs and lows in the past decade. Business confidence was high in 2000. In 2008/9 market growth slowed, then stopped. Many problems were caused by banks making poor lending decisions. When borrowers failed to pay back the money, banks lost confidence and were less willing to lend. This led to people spending less money so demand for products and services fell. The Davis Service Group (Davis) provides textiles maintenance services throughout Europe. It has two main divisions to its business. These are Sunlight in the UK and Berendsen in Europe. The Group has coped with the recent change in the business cycle by focusing on appropriate customers and markets and managing production processes.

The business cycle

The economy goes through times of 'boom' and 'bust'. These happen in cycles. Gross Domestic Product (GDP) measures all the goods and services sold in a particular period. This is a measure of how the economy performs. A downturn is called a 'recession'. The effect of this on Davis depends on how each of its markets reacts:

- 30% of Davis' business is in healthcare. The healthcare sector is more stable during a recession. This is because government supports this sector. It is seen as vital.
- Some markets are mature. This includes UK work wear. As jobs are lost, demand falls.
- In new European markets there may still be growth. These include Poland and the Baltic states. Textile rental is new to them. This means Davis can increase sales.



Recession

Getting through recession involves cutting costs and waste. In a recession:

- demand for products and services falls
- jobs are lost
- businesses invest less
- businesses may close down.

Demand has fallen in some of Davis' mature markets so the Group has cut some of its services. It may also reduce its production costs. At the same time recession may bring new clients. For instance, some firms will outsource their textile needs. Davis plans to make the best use of its resources. For example, it puts aside other production plants when demand is lower rather than closing them down. When the economy begins to recover, Davis can quickly increase its production activity.

Recovery

Over time the economy recovers. A recovery is when demand has shown an increase for six months (two quarters) in a row. This leads to more demand. If people are confident about the market they start to buy more products and services again. Davis plans for this recovery by:

1. operating current plants efficiently
2. investing in new plants
3. cutting costs to increase profits.

Boom

Sometimes a boom follows a recovery. People and businesses are confident about the economy so they borrow money for investments. There can also be problems during a boom time. For example:

- it could be hard to recruit new staff. Wages may be forced upwards
- prices may increase which can reduce spending.

Davis Service Group can survive cycles of boom and bust. This is partly because its services are highly valued.



Conclusion

2008/9 saw rapid recession. Businesses need to respond to this. Davis spreads its business over a number of markets. This helps it manage risk. Davis Service Group cuts costs and invests where it can in the business to prepare for the economy to improve. This has helped it grow through ups and downs in the business cycle.

