

Davis Service Group - Summary

Managing business throughout the business cycle

Introduction

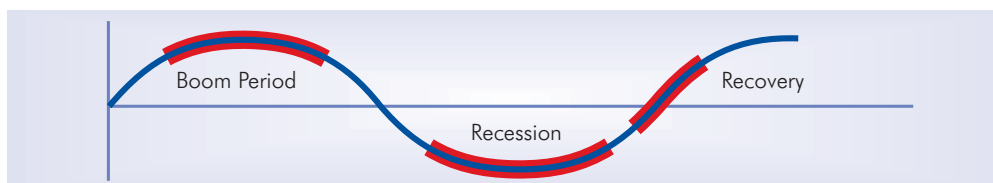
The Davis Service Group (Davis) provides textiles maintenance services throughout Europe. The Group has two main operating companies, Sunlight in the UK and Berendsen in Europe.

Due to changes in the world economy, Davis has had to deal with effects on the business. Economic activity has experienced highs and lows in the past decade. Business confidence was high at the start of 2000, but market growth halted in 2008/9. Many problems originated from banks lending money to risky borrowers. When these failed to pay back the loans, the banks' financial position was unbalanced. They lost confidence and were reluctant to lend. A dip in consumer spending followed, which reduced product and service demand.

The business cycle

The national economy encounters periods of 'boom' and 'bust'. These opposites tend to move in cycles. Gross Domestic Product (GDP) measures all goods and services sold in an economy. This shows how well an economy is performing. A downturn is called a 'recession'. This may affect Davis' business depending on which market it is operating in:

- About 30% of Davis Service Group business is in the healthcare sector. Governments retain this type of activity as high priority so the recession has little effect.
- In mature markets, such as UK work wear for factories, there is some decline as jobs are lost and demand falls. Davis responds by finding alternative markets such as canteen workers.
- In emerging markets, such as Poland and the Baltic Republics, the impact of recession is less. These economies are still growing.

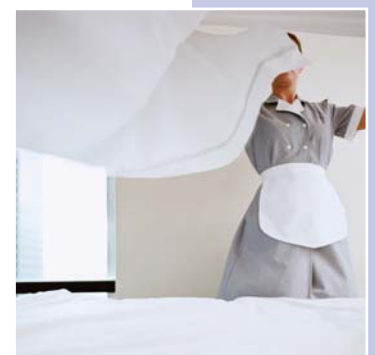


Recession

Surviving in a recession involves reducing costs, such as eliminating waste activity. In a recession:

- demand falls
- jobs are lost
- many businesses reduce investments
- businesses may close down.

Demand has declined in some of Davis' mature markets. In response it has eliminated services that are not performing efficiently. It may also seek alternative markets and look to reduce costs. However, recession may encourage companies to outsource their textile requirements, generating additional custom for Davis. Managing the business through recession needs careful planning. Davis Service Group utilises its resources by continually re-allocating production between its plants. It additionally puts aside other production plants when demand is lower rather than closing them down. This is so that it can increase supply when recovery occurs.



Recovery

Recovery occurs after recession when for two successive quarters demand increases. As there is more money in the economy and income increases, more demand is generated. Market confidence in business is important in encouraging recovery. People then begin investing again.

Davis prepares for recovery by:

1. operating existing plant more efficiently
2. investing in new plant
3. reducing costs to increase profits.

Boom

Sometimes a period of boom follows a recovery. Businesses begin to regain confidence as they can borrow money to invest and develop. However, challenges can also arise:

- firms might find it more difficult to recruit and may be forced to raise wages
- inflation may occur.

Davis Service Group is well structured to manage its way through periods of boom and recession, partly because its services are essential and valued by its customers.

Conclusion

2008/9 saw rapid recession to which businesses have had to respond. Davis Service Group provides services to customers in well-chosen markets. By reducing costs and investing in growth opportunities, Davis has grown during both recovery and recession.

