

# Compass group: an analysis



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## **Introduction**

“ Compass Group (Compass) is a foodservice organization, which provides food and vending services on its client’s premises. The group has operations in 90 countries worldwide. It is headquartered in Surrey, the UK and employs about 360, 000 people (Datamonitor 2009).

The group recorded revenues of £10, 268 million (approximately \$20, 219. 7 million) during the fiscal year ended September 2007, a marginal increase over 2006. The operating profit of the group was £525 million (approximately \$1, 033. 8 million) during fiscal year 2007, an increase of 15. 4% over 2006” (Datamonitor 2009)

Compass is a food catering and hospitality company. The group provides foodservice for customers at offices, schools, universities, schools, and healthcare institutions, offshore and remote sites. The group has operations in 64 countries worldwide spanning North America, Continental Europe and Asia Pacific.

The group operates its business in seven market sectors namely: business and industry; healthcare and seniors; education; sports and leisure; fine dining; defense, offshore and remote sites. The revenues generated in these six market sectors are divided among two business divisions: contracts and vending (Compass Group plc 2009).

## **COMPASS Group's mission**

“ To deliver great service and results through its people-to achieve leadership in the chosen foodservice markets through the constant pursuit of superior level service, efficiency and quality. The total dedication of its staff to the achievement of excellence is regarded as the major factor in its success” (Case study)

## **Strategy**

Compass' aim is to maximize value for shareholders, and this value is enshrined in four commitments to all its stakeholders.

Ensuring maximization of return on investments.

Keeping the customer satisfied at all times.

Deliver on the company's expertise with an unrivalled consistency.

Hiring and placing the best people in the business for the company.

(Lasserre 2003)

Compass group strategically focused on five key areas:

Customer and Client Satisfaction-standard service putting the customer and client first and respond closely to changing needs.

Market Leadership- improved quality, cost effectiveness, experienced and dedicated workforce.

Preferred Employer – offering exceptional opportunities for people to develop their careers.

Operational Excellence- use and application of superior systems, processes, equipment and standards.

Financial Performance- continuous growth in earnings per share and superior returns on invested capital to maximize returns for shareholders.

These strategies leads Compass towards its vision of being the highest quality and most profitable owner and operator of the world's top food service & hospitality business.

Compass Group positioned them as a high quality portfolio of foodservice brands in seven clearly defined market sectors through distinct, client-facing operating companies. The range includes local, national and international brands to meet the demands of different customer groups but all are linked by their quality and service.

(Case study: Compass Group)

## **Growth through Acquisition**

Successful growing companies usually grow through a combination of organic growth and strategic acquisitions. Strategic acquisition is defined as an acquisition where the result of the combination is far greater than the sum of the parts (Shenkar and Luo 2007). There are several categories of strategic acquisition that can produce some outstanding results with effective integration.

1. ACQUIRE CUSTOMERS – this is almost always a factor in strategic acquisitions. Some companies buy another that is in the same business in a different geographical area. They integrate market presence, brand awareness, and market momentum. Another approach is to acquire a company that can establish a presence in a different market segment.
2. OPERATING LEVERAGE -Improving profit margins through higher utilization rates for plant and equipment this is the major focus in this type of acquisition.
3. CAPITALIZE ON A COMPANY STRENGTH -. A very powerful business accelerator is to acquire a company that has a complementary product that is used by installed customer base and this listen times easier compared to selling a product to a new account. Management depth and skill, production efficiency/capacity, developed sales and distribution channels, and brand recognition are examples of strengths that can power post acquisition performance.
4. COVER A WEAKNESS – This requires a good deal of objectivity from the acquiring company in recognizing and chinks in the corporate armor.
5. BUY A LOW COST SUPPLIER – this integration strategy is typically aimed at improving profit margins rather than growing revenues.

(Hill 2008)

### **Compass group acquisition strategy**

A key component of Compass Group's strategy is growth through acquisition. Realizing the fact that they will not be able to achieve their expansion goals

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through organic growth alone Compass decided to acquire companies that will significantly accelerate our growth and profitability (Cherunilam 2004). Compass group ever since it was established in 1941 has since grown both organically and through acquisitions. In 2001 the group had stepped up its strategy of growth through acquisition. While this appeared strategically sound and helped to leverage Compass's position as the world's leading caterer, it affected the cash flow of the business thereby pressuring margins and returns. There was concern about its ability to keep meet the 6 per cent growth target. But the return to an organic growth strategy helped to put Compass back on track. Some of the disposals and acquisitions of Compass group between the years 2001-2005 are as follows (Case study Compass Group):

## **Acquisitions:**

### **2004**

Mitropa, the operator of concessions in German stations and motorway service areas, for £12m

Creative Host Services, the US airport concessions company, for £22m.

### **2003**

Millies Cookies, the Bury-based operator of 100 cookie outlets, for £24m.

### **2002**

60% stake in Italian catering company Onama. For £80m 30-Sep-2002

Gruppo Events, the provider of catering services at Somerset House in London, for up to £6. 6m.

## **2001**

Three catering companies from the parent of Swissair – Restorama, Rail Gourmet and parts of

Gourmet Nova. For £41m 24-Dec-2001

Seiyo Food Systems, the Japanese contract catering company, for £193m.  
Manpower

## **Recent Disposals:**

### **2002**

220 Travelodge hotels and 368 Little Chef restaurants to private equity group Permira for

£712m. 19-Dec-2002

### **2001**

Le Meridien chain of hotels to Nomura International for £1.9bn. 28-May-2001

48 Heritage country hotels to a joint venture between Macdonald Hotels and Bank of Scotland

for £235m.

(Case Study Compass Group)

## **Impact on Business model**

The Group's core strategy remains focused on food and increasingly the delivery of support

services. In the short term, the prevailing economic conditions are likely to continue to impact organic revenue growth. In the medium term, the Group is set to enjoy the combination of structural growth in outsourcing and, as the global economies recover, a cyclical upswing in demand. In parallel, the continued management of the flexible cost base and ongoing focus on the further margin progression. In addition to this, the strength of the cash flow and balance sheet is enabling them to reward shareholders and to accelerate growth through value-creating infill acquisitions (BBC 2007).

### **Compass groups performance**

Compass group made a gradual profit between the years 2001-2005 one of the main reason behind it was its successful acquisition strategy and its proper implementation. Compass groups r like for like sales increased 1% more to 7% in 2004 as compared to their predicted rate of 6%. The main success factors behind this were primarily new contracts as a result of acquisition. Some of the sectors were driving faster growth in Education, Healthcare and our Remote site, Military and Defense Business. In Europe and Rest of the World they acquired several large businesses which have given them a presence in 98 countries whereas their competitors combined are not in 98 countries. Compass group managed to become the number three player in Japan and they managed to turn some loss making business to profitable ones during 2004.

The group recorded revenues of £12704 million during the fiscal year ended 2005, a marginal increase over 2006. For the fiscal year 2007, the UK, the group's largest geographical market, accounted for 23% of the total revenues. Compass generates revenues through two business divisions:

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contracts (92% of the total revenues during fiscal year 2005) and vending (8%).

(Compass group plc 2006)

## **Revenues by Geography**

The UK, Compass Group's largest geographical market, accounted for 23% of the total revenues

in the fiscal year 2005. Revenues from the UK reached £2812 million in 2005, an increase of 6.6% over 2004. North America accounted for 30% of the total revenues in the fiscal year 2005. Revenues from North America reached £3937 million in 2005, an increase of 3% over 2004.

Revenues from Continental Europe reached £ 5443 million in 2005, an increase of 6% over 2004. Rest of the world accounted for 9% of the total revenues in the fiscal year 2005.

Compass groups 5 years revenue and net profit £m

2001

2002

2003

2004

2005

Revenue

8, 716

10, 627

11, 286

11, 772

12, 704

Net Profit

162

244

215

218

37

(Case Study Compass Group)

## **Business Ethics**

Business ethics involves a discipline that examines good or bad practices within the context of moral duty. Moral conduct is behavior that is right or wrong. Business ethics include practices that are good or bad.

‘ Business ethics’ is defined by Crane and Matten as: “ The study of business situations,

activities and decisions where issues of right and wrong are addressed”. The authors further explains how they by this mean morally right and wrong in contrary to commercial, strategic and financial right and wrong. Business ethics can be said to begin where the law ends. There is not always a correlation between the legal right and the moral right and business ethics often is concerned with issues, not covered by the law.

(Kotler 2007).

## **Ethical Marketing and its pros and cons**

Ethical marketing is the combination of marketing ethics into the marketing process. Marketing ethics can be described from a moral standpoint, of particular marketing issues that are matters of moral judgment. The establishment of marketing ethics has both long and short term benefit on the society. Since marketing forms a significant part of any business model ethical marketing should be a part of business ethics and it results in a more socially responsible and culturally sensitive business community.

Ethical marketing promotes qualitative benefits to its customers and the concern with ethical issues, such as child labor, working conditions, relationships with third world countries and environmental problems, has changed the attitude of the Western World towards a more socially responsible way of thinking. The idea of fair trade is that consumers pay a guaranteed commodity price to a small group of producers. The increasing trend of fair trade is an example of the impact of ethical marketing. This has influenced companies and their response is to market their products in a more socially responsible way (Journal of Consumer marketing 2001).

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## **Compass bribery case**

Compass group was subjected to US investigations due to an alleged bribery case at the United Nations in 2005. ESS (Eurest Support Services), a subsidiary of the Compass Group is accused of using leaked details to get supply contracts for UN peacekeepers. In an investigation it is also found that ESS worked on more than with another company called IHC which allegedly leaked details to companies in exchange of money. In October 2005 they were suspended as a registered UN vendor. This is absolutely unethical, a company like Compass Group with a turnover of around £12,704m in 2005 this is a disgrace and there was no need for them to do that. Companies like Compass Group should set themselves as role models with presence in almost 98 countries and annual revenue double that of their competitor they didn't need to get involved with this practice. They might have made a short-term profit but the long-term effect was devastating. The company lost its goodwill, customer trust and industry acceptance and it will be very tough for the company to get future contracts. Compass also had to compensate its competitors ES-KO and Supreme food service who lodged a claim against them of (£213m+£125m=£338m) for alleged bribery to win contracts to feed UN peacekeepers. From research it is seen that business is not bound by any ethics other than being bound by the law. Milton Friedman said corporations have the obligation to make a profit within the framework of the legal system, nothing more. Friedman emphasized the fact that the duty of the business leaders is, " to make as much money as possible while conforming to the basic rules of the society, both those embodied in the law and those embodied in ethical custom". According to him ethics is nothing

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more than abiding by ‘ customs’ and ‘ laws’. The reduction of ethics to abidance to laws and customs however has drawn serious criticisms (Lasserre 2003).

### **Public Opinion on ethical marketing**

When asked about ethical marketing some respondents said it would make little difference while others added it would be confusing and make buying difficult. This indicates a problem for the so-called sophisticated consumer. The addition of extra trade off ethical information alongside price, quality and other factors seems too much for the consumers to deal with. Consumer comments varied from people to people some were against this type of practice and feels like government should get tougher on this type of alleged practice whereas others believe in today’s competitive world businesses are trying too much but if it benefits the consumer it’s alright for them. Some people do not care and gives more importance to price, quality and value than corporate ethics (Boulstridge and Carrigan, 2000; Ulrich and Sarasin, 1995).

### **SWOT analysis Compass Group**

“ Compass is a foodservice and hospitality group. The group provides foodservice for customers at offices, universities, school, healthcare institutions, offshore and remote sites. It has diversified business which reduces group’s dependence on any one particular group and helps it to establish its brand image and differentiate its product offerings. However, due to rising fuel prices the group may not be in a position to pass this price rise to its customers and this could impact group’s margins” (Compass Group Plc 2008).

## **Strengths**

Diversified business decreasing operating cash flow.

Strong margins

Diversified geographic presence

## **Weaknesses**

Decreasing operating cash flows

## **Opportunities**

Increasing hotels, restaurants and leisure High fuel prices

market Consolidation in the US grocery retail

Ageing US population Rising labor wages in the US

Increasing UK education services

## **Threats**

High fuel prices

market Consolidation in the US grocery retail

Ageing US population Rising labor wages in the US

(Compass Group plc 2008)

## **Opportunities and threats in US and UK**

### **Opportunities**

Increasing hotels, restaurants and leisure market

Global leisure market is increasing. The global hotels, restaurants and leisure market grew by 6%

in 2006 to reach a value of \$2, 623. 6 billion. In 2011, the global hotel, restaurants and leisure market is forecast to have a value of \$3, 524. 2 billion, an increase of 34. 3% since 2006. Europe accounts for 30. 7% of the market value. Compass Group leads the global market with 0. 9% share of the market value. Since the group caters to the leisure sector, it can expand its business further.

(Compass Group PLC 2008)

Ageing US and UK population

The demographic trend towards an ageing population in the US AND UK presents a strong growth opportunity for the group's healthcare division. In the healthcare division, the group provides non-clinical support services to more than 1, 100 healthcare and senior living faculties in North America. Being a food and facilities provider in the US, the group, should use its subsidiaries to cater to the ageing US population with its services to senior living facilities thereby making position for itself. Due to the strong market position of this segment, the group can benefit from the positive outlook of the market.

(Compass Group Plc 2008)

Increasing education services

The group serves meals to students. By 2009, the global education services sector is forecast to

increase by 47.1% compared to 2004. The US, Asia-Pacific and Europe account for 34.3%, 33%

and 25.2% of the global education services sector. With strong positioning in the educational services sector, the group is well poised to gain from the growth of the educational services. Getting more new contracts will certainly give them the competitive edge over its competitors.

(Compass Group Plc 2008).

## **Threats**

High fuel prices

North America (including the US) is the group's largest geographical market. Prices in the US oil market recorded an upward trend in 2004 and if they continue to rise. Since the company transports its services, higher fuel prices are likely to have a direct impact on the group's margins as the price volatility in fuel costs may cause an increase in operating expenses of the group disproportionately to its sales volume.

Consolidation in the US grocery retail

In recent years, the US retailing industry has been witnessing consolidation. Supervalu acquired a certain assets of Albertson's in 2006. Another competitor, Whole Foods, is following an aggressive acquisition strategy to achieve its target of \$12 billion in sales by 2010. Tesco entered the US



market in 2007 through the West Coast. Industry consolidation and new larger entrants may negatively impact company's margins and market share for example Tesco opening Fresh and Easy .

### Rising labor wages in the US

Labor costs are rising in the US and due to tight labor market, increased overtime, government mandated increases in minimum wages and a higher proportion of full-time employees are resulted in an increase in labour costs, which could materially impact the company's results of operation.

(Compass Group Plc 2008)

## **Conclusion**

Compass group one of world's leading food catering and hospitality company provides food service for customers at offices, schools, universities and health care intuitions stc, Their aim is to maximize value for shareholders through maximization of returns, keeping customers satisfied at all times, hiring the best people in the business. They are strategically focused on customer satisfaction, market leadership and being the preferred employer. Compass group's recent strategy is to grow through acquisition. This has given Compass outstanding results ex-Compass-Granada merger. There are also some controversies regarding one of Compass's subsidiaries which is accused to bribe another company to win contracts. This damaged Compasses reputation a lot. The opportunities for Compass groups are the growing number of hotels, restaurants, leisure centre, growing us and UK population. Consolidation in the US grocery retail, rising labour wages in the USA are some of its threats. Compass should make the most of its

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opportunities and learn their lesson from the bribery case so that things like that does not happen in the future.

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## **Website**

**www. bbc. co. uk/business**

**www, datamonitor. com**

**www. compass-group. co. uk**