

# Business studies

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Peter Nicholson wishes to convert the factory in the north east to production of the electric taxi. Using data in Appendix C, Table 1, calculate payback period and the average rate of return. (8 marks) Peter Nicholson proposes to remove two management levels from the organizational structure and to encourage greater empowerment of the workforce. Do you think that this is a good idea? Justify your view.

(18 marks) I believe that delivering the organizational structure by two management layers will encourage greater empowerment of the workforce.

He would do this by flattening the organizational hierarchies whereby layers in management are removed and the existing managers' span of control is broadened. It is believed that flattening hierarchies has numerous benefits but on the flipside, negative effects may be experienced. The rationale or thinking behind delivering or flattening is that it leads to streamlining organizations to enhance efficiency in responding to changes in the market, stay competitive (competitive advantage) and respond to customer needs faster.

The implication is that besides reducing or controlling costs, flattening an organization structure's benefits emanate from changes in governance internally whereby when decisions are pushed downwards to empower groups, other employees are empowered (can make decisions and feel relevant), responding to customer good example is signing of memos or seeking approvals to refund a customer. If the levels are many, then it could take many hours or even days to refund but when the organization is flat with few levels of management, decision to refund is made there and then.

By removing 2 management levels this decreases the businesses cost by to having to pay 10 managers salaries which are very high, this would mean that in the long term the company would save a huge amount of money which in turn means that fixed costs go down which could potentially lead to a larger profit. However, making 10 managers redundant can have a large impact on the companies costs as making managers redundant can be very expensive and could have a negative effect on the company's cash flow especially since the company isn't doing well as a whole.

This is a short term effect which can be sorted out by obtaining a loan but in the long ERM this would benefit the business and increase its profitability levels. Another benefit of removing 2 management levels is that the decision making process is much easier and faster the reason it empowers the workforce is because they feel that they are being listened to by higher levels and also that they are more in the loop when it comes to making decisions that will affect the whole company.

However even though they know how the business run internally they shouldn't get rid of 10 managers because they've had year of experience between them and know how to run the equines successfully and also their expert knowledge about their competitors all they would need help with is the new technology that would bring them into the 21st century and make them even more successful.

The drawbacks of removing the two levels of management means that the managers that are still left will suffer as their workload will increase, their span of control will increase which has negative effects on the business as

communication will break down leading to disgruntled employees or jobs and roles not being completed to a high enough standard.

Managers may become demoralized because as well as the audiences causing unease among that level they have also lost some of their authority among the work force due to the workforce increased empowerment. This means that Peter Nicholson would like a situation whereby changes in the market are responded to faster, respond to customer needs faster, make the remaining managers more engaged and creative and reduce some costs.

Awaken or improvement that is continuous takes effect in Peter Nicholson firm measured by enhanced productivity (increase profits to E MM by 2018), increased quality and waste reduction. Emphasis is on Awaken group's employees with a common interest of the process of production for example designers, installation employees and production manager. To this extent, removing two levels of management can be justified but sometimes negative effects could occur. For instance, the managers who will be axed will demand for early retirement pay which will add up to the redundancy costs.

Some of them might challenge the process in court increasing costs through legal battles.

In addition, people who rise to managerial level possess the required experience, skills and knowledge about the business thus the organization could end up losing such expertise to competitors reducing business reference. It is often said that theory must be applied hence losing about 10 through experience. For example, a well-seasoned manager or employee

understands how to handle difficult customers something which is not taught in schools.

Delivering should be approached with caution since the organization may end up axing the right managers while retaining poor ones or some of the 10 managers could possess expert power and people power such that when they leave, the remaining employees could be demoralized and organization lose the much needed knowledge to remain competitive. In addition, increasing span of control for the CEO ND the remaining managers could imply increase pay and allowances due to workload adding up to costs.

Sometimes even the increased workload could reduce quality of decision making, reduce morale and lead to more exits for those managers who cannot handle pressure. More importantly, increased pressure from work especially in peak seasons could lead to serious flaws which could cost the organization a lot of money. Traditional levels of management and long hierarchies may not be relevant in this century of advanced technology which has made accesses to data and communication easier and faster.

To conclude they should cut down two management levels because in the long term they can decrease their costs and save money, the decision process will be faster which could lead to a more responsive business, greater empowerment would improve productivity and decrease absenteeism and labor turnover, however the business needs to take into account the short term effects such as high redundancy costs for 10 managers, the increased workload which would demoralize the managers which could have a negative effect of the business.

By delivering and empowering the workforce could be crucial to obtaining Peters objectives of improving the brand image and of achieving the EI by 2018.

Electric taxi should commence at the North East factory or at the West Midlands factory? (18 marks) According to the case, Nicholson ply's taxis are known for exceptional quality and are reliable and these key values should extend to the new electric taxis or vehicles to be produced.

The management is faced with a conundrum thus a cost benefit analysis must be undertaken since the overall objective of Peter Nicholson is to control costs. The Finance Director has raised concerns about the new project's viability, payback eroded, rate of return, significant budget, limited financial resources and project rockiness but these would be irrelevant if the proposal is approved or accepted. Thus, the main areas to address are the Operations manager concerns and the Coos need to grow business beyond Europe which will mean a cost benefit analysis. . Benefits and costs of both factories and link it to overall strategy.

The advantages of North East factory are close proximity to a suitable port about 20 miles compared to West Midland's 200 miles; Its nearness to the port fits well in the overall strategy and Coos dream of exporting the taxis to other European markets beyond the UK this means that they would spend less on the cost of travel due to the good infrastructure.

The access to specialist technical expertise from an electrical engineering company on site which means they don't have to hire a specialist to come into the company this allows more help, advice and expertise to allow the

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company to access their electric cars , payback period is 3 years and 1. 24 months compared to 3 years and 6. 9 months in West Midlands factory; contribution per vehicle is EWE, 500 compared to EWE, OHO in West Midlands factory and increased opacity by 50% could increase vehicles produced to 600 and enhance profitability to E. M.

They should go for the West because the breakable is easier to make so the profit will be more accessible compared to the North's factory as the West don't have to sell as many cars, which should be even easier as their capacity is larger yet they still have the space to increase their percentage and be successful. Their labor turnover is low which means that the company must be doing something right if employees aren't leaving as much compared to the North who has higher training and hiring costs.

The west has better quality taxi's with fewer customer complaints whereas the North has low profit due to its high breakable point and its poor quality of cars leading to high return rate. Hence, in the short-term, West Midlands factory seems viable especially due to skilled labor and capacity, good quality, low labor turnover and low absenteeism but when the quantitative factors are discounted I think manufacturing in the North East factory is worthwhile compared to West Midlands factory in the long-term and the reasons are as follows: Labor is mobile thus some of the skilled workforce in West

Midlands factory could be transferred to North East factory; capacity could be come in handy and the deciding factor will be nearness to the port since Peter wants to export to other European markets because the UK taxi market

has shrunk (potential for growth). But issues like defective cars, absenteeism, labor turnover and poor quality at North East factory must be addressed immediately.

The riding factor is the proposal being approved and both the Finance Director and Operation's managers concerns are addressed. To conclude they should go for the North east factory as they have easier access to Europe and an electrical engineer on base which is what appeals to the technological update that the company wish to pursue however the West is more stable and profitable at full capacity.

The North should address their problems in order to be successful. Using all the information available to you, complete the following tasks: Analyses the key arguments for and against the electric taxi proposal Make Justified recommendation on whether the electric taxi proposal should be accepted (36 marks) The electric taxi proposal wants to take advantage of advances in technology and Nicholson EPIC'S long history in the taxi manufacturing industry.

More importantly, the company has been experiencing declined sells due to fall in demand, competition is stiff and less innovation which has hampered production of new car models.

On the overall, the firm wants to move with modern times and embrace new technology and probably increase sells.

Analyzing the specific objectives and the market trends, the following arguments are fronted: The CEO Peter had spent quite some time at the



Ionians leaf production where mass production of electric vehicles was being done with great success and has learnt from it; it appears according to the trends in the raked that technology driven vehicles have great potential for growth; It's important to take into account the market research as it was done/researched to find out what the company should aspire to, in this case electric vehicles currently and in the future.

The forecasts of secondary research shows that by 2020 10% of all global car market will be made up of electric vehicles, this is important because now people have realized the negative impact driving petrol fuelled cars but still want an the changes in consumer tastes and preferences and growth in their awareness evils such that increased cost of fuel has led to consumers going for alternatives that are efficient (fuel consumption is important to consumers).

This allows the company to make alterations to their products to fit in with the latest demands in consumer tastes, this effects the business as making these cars are much more expensive because of the technology behind the car in that it wont go 5 miles and need to be re-charged it would also need to have what tact= xi drivers need such as Sat Nava.

As consumers are becoming more aware of the negative externalities of rotational cars in terms of exhaust emissions into the environment the next few years will see most manufacturers launch a range of electric vehicles to fit the demand for taxis' that no carbon footprint Besides the pros of the proposal, the arguments against it are price since primary research show that consumers are price sensitive.

The electric taxi could cost £11 000 more than the present version and considering price is a key factor in the purchase of vehicles scoring about 66%, it could reduce rate of up take; 66% of the taxi firms are not willing to pay a premium.

For a company that is not doing financially well at the moment this is a huge financial commitment especially if they don't do well, if this new proposal fails then it may lead the company into bankruptcy forcing it to close because it's not able to generate enough finance. The new CEO is 28 years and is inexperienced in managing a growing and large firm because of this he may be too enthusiastic and not listen to the managers that have been there for a long time and make bad decisions which could in effect ruin the business as they aren't working out properly.

He also has no experience in being a CEO which means he may not have all the skills required however because he is young he may have new ideas which works in today's modern world which could help push the business further and make them highly profitable. Thus in a nutshell, the proposal is hanging precariously and serious issues need to be addressed. On the positive side, Nicholson has a good reputation in the market known for its quality and it could leverage on this as a competitive advantage to attract more customers and enhance sells.

It appears from the primary research potential customers consider liability as the second most important feature besides price. Nicholson taxis are reliable. In addition, this good and long reputation could be used to persuade the buyers to pay the EIA, OHO premium for the new taxis. But if the Finance

manager's sentiments are to be considered, Nicholson has less liquidity and resources to finance such a risky proposal. In addition, the operating profit has been on the decline from E in 2012 to E in 2013 and the company is highly geared at 60.7% and more borrowings could drive the gearing ratio higher.

A highly geared firm is often viewed negatively by potential investors. In addition, it appears that customers do not consider environmental impact as an important factor when buying vehicles (scored 10%). One of the keys to success and which the firm could use as a marketing gimmick is its reputation in the market, long history and the reliability aspect and may be long-term savings for customers in terms of fuel financial position to support the risky project.

The top management including the CEO are faced with a conundrum to the extent that it is a delicate balancing act between long-term growth, satisfying customers and financial health of the firm. A good strategy should be devised which includes a contingency plan such that if the project fails, they will have a fall back plan. In terms of business strategy and marketing strategy, this proposal fits well in the Nations matrix new product and market development since the firm is seeking to develop new electric taxis and market it to new markets beyond the I-J.

The following should be done in order to ensure success: First, the company must develop a marketing plan and a marketing strategy incorporating the 7 As of marketing mix and identifying the unique selling point of the taxis for example reliability, saving on fuel, environmental friendly etc. The

marketing department should consider a niche market and undertake STEP (Segmentation, Targeting and Positioning) since this marketing strategy runs away from mass marketing and uses target marketing which is efficient and effective and increases sales.

Marketing activities could include Integrated Marketing Communication (MIMIC); use of promotions like warranty and discounts etc. Secondly, the project should run parallel with the present taxis such that the production manager will monitor the trend in production and advise the CEO on whether to continue producing or not hence Awaken groups come in handy. I propose registering the electric taxi business as a separate entity from the present taxi business for ease of monitoring and control.

This new business maybe called Nicholson PICK; s electric taxi Inc. Separate with new management and employees but under the group. International markets are tricky hence the Peter could choose an appropriate market entry strategy proposed by practitioners like Root and others ranging from less risky to more risky. The CEO could go into a Joint Venture (OVA) with a reputable company, undertake mergers and acquisitions or register franchises since some methods like franchising require less funds but the company is involved in the operations.

Such strategies like franchising or Mergers& Acquisitions could help the firm especially at a time like this when they have fewer resources but are willing to expand.

Considering the trends in the market, the company must invest in the electric vehicles proposal but with a clear strategy. Considering the Coos less  
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experience in the market, he requires expert advice from within and without. The new venture has great market potential which could give Peter the desired yearly profit of E1 MM by 2018.

Diversification is vital for business growth but it should be done with great care, benefits of the new taxis made clear, advertise well, engage with customers via the internet and social media, address internal shortcomings and outsource some services which are not core to the business. To conclude, I believe that the firm should use my proposal as marketing is key to a successful business to enable prospective consumers (taxi drivers) to want to invest in their company to allow it to grow.