

Internal and external factors of mitchells and butlers



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INTRODUCTION

Mitchells & Butlers owns and operates around 2, 000 high quality pubs in prime locations nationwide. The Group's predominantly freehold, managed estate is biased towards large pubs in residential locations. With around 3% of the pubs in the UK, Mitchells & Butlers has over 10% of industry sales and average weekly sales per pub almost four times greater than that of the average UK pub. Mitchells & Butlers' leading portfolio of brands and formats includes Ember Inns, Harvester, Sizzling Pub Co., Toby, Carvery, Vintage Inns, Crown, Carveries. All Bar One, O'Neill's, Nicholson's and Browns. In addition, Mitchells & Butlers operates a large number of individual city centre and residential pubs.

PESTEL ANALYSIS

Political/Legal

Business have to understand the 'surrounding conditions and circumstances' in which they operate or work in order to stay competitive as well as be successful in the market. Environmental analysis is needed because the environment does not stay the same- it is dynamic therefore businesses must operate under a general assumption that the future will be different from the past. Hence it is important to know how it will change in order to respond to or influence this change in a way that will allow the organization to achieve its goals (Wetherly. P and Otter. D, 2008). Business organization differs in many ways, but they also have a common feature, the transformation of input into output. This transformation process takes place against a background of external influences which affect the firm and its activities. This external environment is complex, volatile and interactive, but

it cannot be ignored in any meaningful analysis of business activity (Worthington and Britton, 2003). In analyzing the macro environment, it is important to identify the factors that might in turn affect a number of vital variables that are likely to influence that organization's supply and demand levels and its costs (Kottler and Schlesinger, 1991).

The PESTEL framework provides a comprehensive list of influences on the possible success or failure of particular strategies PESTEL stands for the Political, Economic, Social, Technological, Environmental and Legal factors that affect the firm (Johnson, 2008). The analysis result can then be used to take advantage of opportunities and to make contingency plans for threats when preparing business and strategic plans (Byars, 1991; Cooper, 2000). A number of aspects of the political environment clearly impinge on business activity (Worthington and Britton, 2003). The major political factors that has showed a challenge or difficulty to the Pub and Restaurant industry is the UK government regulations regarding planning. Over the last few years, especially the pub industry affected by a flood of new regulation, including the licensing Act, a ban on smoking, the introduction of Alcohol Disorder Zones as well as number of Government consulting, media and NGO's targeting. With every stringent law on food and drinks, Mitchells & Butlers plc will have to follow more and more regulation like no smoking, below 18 age are not allowed and also provide calorie content on the menu. Mitchells & butlers plc is the first pub companies to agree to publish information on the calorie content of dishes on the menu with two brands, Harvester restaurants and Scream pubs as a part of food standard agency initiative.

The number of pubs in the UK is forecast to fall 3% by 2012 while the value of restaurant trade will rise 8% by 2011, Market & Business Development. Therefore " Food now accounts for a third of sales at firm like Mitchells & Butlers, which owns Brown's restaurants, and this has altered the business equation.

One common denominator throughout ' Downturn in Dining' is the notion that eating out is now firmly embedded in European culture, particularly the UK. The simple fact is that eating out is not a luxury thing to do anymore and as consumers become more time-strapped they look to the market to make their lives more convenient. Backing up this theory are the hard facts.

Between 1996 and 2008, the amount spending on eating out rose from 4% to 33. 7% of total food expenditure. Quick service restaurants (QSR) continue to grow on average by 4. 4% every year and chain concepts grow 8. 4% every year, according to Rabobank. Social and demographic trends are favoring restaurants, whose customers are generally older and wealthier, Mitchells & Butlers turnover has increased in recent last years but the challenge will be compete against unknown forces like substantial cost increases, particularly in the areas of duty, employment, food and energy costs. While regulatory costs are effectively known, with duty rising by £ 9 million and employment costs by £ 11 million, the commodity and energy input costs are proving highly volatile and unpredictable. It is not just the tax on beer that is to blame. The support given by Government to Supermarket chain organization is tremendous regarding tax reductions etc.

Supermarkets are a large part of the problem, with their below-cost alcohol deals.

Economy

This is the national and international economic situation in which business as a whole operates. Business in general will fare much better if the economy is growing than if it is in recession (Sloman and John, 2005). In May 2009 the European Commission (EC) stated: "The UK economy is now clearly experiencing one of its worst recessions in recent history." The EC expected some positive sign in early 2010, followed by a gradual return to "slight positive growth by late 2010".

"An increase of 2% above inflation will actually amount to over 5% and brings the total increase in duty to more than 25% in the past two years." "This further increase in duty, in addition to increased overheads, means pubs will now receive just 23 pence profit from the sale of a £3 pint of beer." Added to the existing pressure from the economic downturn and increasing competition from below-cost supermarket pricing, the survival of many pubs is now in serious jeopardy. 40 pubs are closing each week, resulting in job losses (24,000 jobs lost in sector in 2009) and millions of pounds lost to the economy.

There are a number of connected factors that play a role in the closure of pubs, including the impact of the economic downturn, recent legislative changes such as smoke free legislation, and changing social habits. However, the licensed trade also argues that rising costs have been a key factor in pub closures. Pubs are also closing in anticipation of gaining planning permission for conversion to higher value uses such as housing. Current trading is underpinning the performance in the first half of the financial year however the outlook for the second half is uncertain. It is clear

that at a macro level some of the factors that are assisting performance may turn negative in the second half. In particular the outlook for disposable income and consumer confidence could be dampened if VAT and other taxes were to rise. Notwithstanding this, Mitchells & Butlers' strong brands, excellent sites and good operational skills leave the business well positioned.

Social

People are important in the economy as both producers and consumers of goods and services (Ian Worthington, 2006). Take this argument further in their 'Integrated Social Contract Theory', by Donaldson and Dunfee(1999) suggesting that there are basic moral minimums (or 'hyper norms') that govern all social relationships on the macro level (Wall and Stuart, 2004). For any company to sustain and attain growth social factors play an important role, so it is the duty of the organization to give something back to the society also, Mitchells & Butlers recognizes the wider concerns caused by anti-social behavior from excessive alcohol consumption. In November 2007, Mitchells & Butlers was delighted to be awarded – for the second time – the title of Most Responsible Managed Pub Company at the Morning Advertiser's Responsible Drinks Retailing Awards 2007. Nowadays there seems to be more emphasis on hygienic and fresh food, also huge emphasis by the government to promote healthy eating (eatwell. Gov. uk 2008[online]), primary due to the increase level of obesity within the UK (department of health 2008[online]). Therefore company is now focusing on food preparation and where possible, incorporate healthy cooking practice into kitchen, company have removed Hydrogenated Vegetable oil (HVO) from

frying oil and also start dishes with low salt content to make healthy and hygienic food for their customers.

In November 2008, Mitchells & Butlers announced a new charity partnership with Marie Curie Cancer Care. In addition to employee fundraising, the Company pledged a £25, 000 donation to the charity to kick start the relationships. The company first year of partnership has been a huge success, with their employees supporting the partnership through.

Fundraising activities and taking part in our departmental fundraising challenges. This has resulted in our corporate team raising over £33, 000 for the charity in just 12 months through their enthusiasm, generosity and dedication to the partnership. Each year around 3, 000 of our retail teams are trained through our Management Foundation Course and Compass programs for their employees. Also 77% of the employees agreed flexible working and has a positive impact on their working as well as personnel life style. Company supporting a number of fun, runs, sponsored walks and volunteering initiative, as well as school and local community group.

Technological

Technological improvements are possible across the value chain of any business. Technology is a process that enable business to utilize resources more efficiently and expand outputs by a greater rate than they increase use of inputs (Wetherly and Otter, 2008). Reducing energy consumption makes good business sense; it saves money, enhances company reputation and most importantly helps to tackle the effect of climate change. The save energy company has totally focused on investing in a series of equipment and exploring technology to help and achieve greater energy reduction

levels. Low energy lighting bulbs, electrical smart meters, gas automated meter, energy efficient equipment and water leak detection. Company has also been first-to-market with new dispense equipment for our carbonates which is industry leading in ensuring the consistency of the taste, carbonation and temperature. The roll out of this innovative technology began in April and now completed over 500 installations.

Environment

A lot of emphasis western companies have been on the role of big companies in reducing carbon footprint and increasing energy efficiency (Bream 2008). This is just not a backburner issue anymore and every organization will have to prove they are reducing their impact on the environment, meaning Mitchells & Butlers will have to invest more on green issues. The company is totally commitment for environment and the absolute necessity to reduce CO2 emissions. In 2009, Mitchells & Butlers plc celebrated being one of the first companies to win a middle C+ carbon positive award, for being among the region greenest business. At Mitchells & Butlers continues to value the importance of minimizing the impact the business has on the environment with over 40, 000 people employed to serve 129 million meals and 574 million drinks each year, company aware of a responsibility for the scale of the resource use and wastage produce therefore company is using energy saving new equipment and doing waste resource action program continuously.

The Porters five forces Model

There are as number of variables that help determine how attractive an industry is and which shape the larger term profitability for different

companies that make up the industry. (baines and fill. 2008) according to (porter, 1980) the intensity of competition in an industry is neither a matter of coincidence nor bad luck. Rather, competition in an industry is rooted in underlying economic structure and goes well beyond the behavior of current competitors. The race of competition in an industry depends on five basic competitive forces. By the relative power of each of the forces, an organization can identify how to position itself to take advantage of opportunities and get over from circumvent threats. The forces are the threat of new entrance, the supplier and buyer power, the threat of substitute products and competitive rivalry, understand the nature of each of these forces gives organizations the necessary insights to enable them to formulate the appropriate strategies to be successful in their market (Thurlby, 1998).

The threat of substitutes in the Pubs and restaurants in the market is a low one simply because consumer views it as an entertainment as well as outing with family. The pubs and restaurant is always trying to converge and assimilate new innovation with respect to pub and restaurant products as alternative business. The only major threat of substitute is internal industry threat like supermarkets stores, fast food restaurants as well as Coffee cafe corner chain. These are challenging times, with the credit crunch, demographics, cheap supermarket beer and the smoking ban creating unfavorable pressure on the trade now and into the future. But company is overheads and squeezes the cost of products, so that it increases the customer foot fall.

Barrier to entry for new players are extremely high in the Pubs and Food restaurants. Mitchells & Butlers plc has started with a high capital. Initial investment by the new entrance would be enough for setting up a company, there should be commitment from the government and local community of that area also. Industrialists are always willing to start new ventures and encourage small companies to make them big. The threats from new competitors are somewhat limited in this sector due to the high cost involved in developing one firm. The profit margin is going down and more rules and regulation have to follow compare to other business or trade.

Rivalry could be very high between companies. The competition between companies' ranges from High to low, but here completion is always very high all services. Competition is between location, price quotes, discount offers, best quality and services e. t. c. Mitchells & Butlers plc faces healthy competitions with big companies like Whitbread plc, Walk about chain, Pubs'N' Bars plc and Greene King plc. Companies constantly in look out to recruit the best Workforce available in the market, Hence these companies try to see that their best workforce is not taken by its rival companies. In order to retain companies its employees, handsome salaries are paid to its employee's especially in marketing and R&D.

Buyer and Customers are those individuals or Organizations that purchases the company output or items that are needed to carry our business activities. Bargaining power of Customers or buyer can reduce prices, increase quality and increase service level demands and putting pressure on profit (Porter 2008, Harvard Business review). Due to the competition and customers have the best option to choose among best companies and for <https://assignbuster.com/internal-and-external-factors-of-mitchells-butlers/>

best deal Customers can switchover easily to the companies on the basis of price and quality. Mitchells & Butlers understand the value of keeping in touch with the customers' experiences and enabling company to continue to deliver great quality service to our customers. The company consumer Insight team works closely with their brands to manage company valuable customer research and help them better understand the views and preferences of valuable customer.

The bargaining power of suppliers is not huge in Pub & Restaurants company, all the raw materials which are needed for making food items as well as wine, beer and alcohol are coming from various parts of the countries as well as overseas, company deals with only big suppliers to delivered good quality with sharp price and with quick delivery and because of good order quantity placement, company has more buying power of products therefore every big manufacture or supplier follow the company instructions and regulation to became a major supplier of Mitchells & Butlers plc.

Role and importance of Stakeholders & Their influence in organization with reference to CSR.

A company or an organisation alone can't face today's global challenges, For an organization to grow and generate revenues they require help and support from employees, shareholders, suppliers and local communities. By combining all these elements we call it as " stakeholders". The role of stakeholders, their importance with respect to the organization is critical for success of companies.

Johnson et al (2008) states that strategy is If a company is able to develop a strong trustworthy bond with its stakeholders by satisfying their needs, then the stakeholders will support the company even if it is in a financial crisis situation also and aim for a progress of company. The relationship between the company and stakeholders is complex and moral so the relationship involves responsibility and accountability. The stakeholder concept has also grown in popularity among policy makers, regulators, non-government(NGO) business and media (Stakeholder Theory & Practice, section 1: 3).

It's the responsibility of the organization to take care of its stakeholders by supporting the underdeveloped communities by generating employment hence it the responsibility of organizations to take up the social and environmental issues. the company actively pursued a strategy designed to increase its growth potential by keeping its stakeholder interest protected, which in turn resulted in strong revenue growth, with stepped up efficiency plans, fed through to significantly higher profits and an attractive return on investment for shareholders. Mitchells & Butlers have implemented an ambitious quality and productivity strategy to bring all pubs and restaurants to the same level of operating performance so that the quality and the benefits enjoyed should be equal by all. Mitchells & Butlers is dedicated to creating wealth for shareholders, as well as all its other stakeholders, including customers, employees, suppliers and the community.

The main policy makers are Directors and Manager of Mitchells & Butlers and have in position in term of controlling the organization. According to Johnson et, al(2008) given that strategy development can be internally political process with implication for the personnel carrier of these concerned,

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directors and managers can find difficulties establishing and maintain a position of integrity. The decision can influence by the expectation of stakeholder. Recently due to some conflict between company chairmen and major shareholder of the company take company into tough time. The major Shareholder of the company forced to change directors of company and bring his own team onboard. The employees are significant group of any organization so as in Mitchells & Butlers. The employees of Mitchells & Butlers are primary stakeholder group that the organization can rely on to execute its policies with their operation. CSR is such a powerful element that it makes the corporations to change its policies and keeps organizations in better position to predict changes that occur socially, economically and environmentally The companies will gain and will get influencing power on suppliers, consumers, governments and face new problems, If they are involving stakeholders in Corporate Social Responsibility for companies. Mitchells & Butlers also make local community as a part of social responsibility therefore Mitchells & Butlers follows all local government laws regarding to maintain environment clean Customer of Mitchells & Butlers are interested in the prices and quality of product and services available therefore Mitchells & Butlers team always putting pressure to supplier to give better price and good quality products.

In Conclusion therefore, the above forces determine the level of competition in the market and therefore Mitchells & Butler is managed to assess the power of each force by implement strategies to protect the company interest from competitive forces as mush as possible. This gives it a strong level upon which it is able to compete with other pubs and restaurants in this

industry and also how stakeholders playing important role of company decisions.

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