THE TIMES 100

Edition 14

Davis: Managing firms throughout the business cycle

Answer sheet

1. What type of business is Davis?
   Textile maintenance industry. Service industy -Tertiary sector.

2. Who are Davisôs customers?
   Anyone who uses laundry and washroom services. It cleans linen for hotels, overalls for workers.

3. What is the difference between a cost centre and a profit centre?
   A profit centre is a part of the company that directly earns money from its activities, whereas a cost centre does not earn money from it activities but costs money to run it e.g. head office.

4. What is a business cycle?
   A business cycle is a reflection of what is going on in the economy in terms of spending on goods and services. The trend is drawn in a diagram over a period of time.

5. What are the stages of the business cycle?
   Upturn, boom, downturn, recession, upturné .

6. How is economic activity measured?
   It is measured using the GDP which is the total value of all goods and services spent in a particular period of time e.g. 3 months.

7. Why does the business cycle fluctuate?
   Demand for products fluctuate according to the amount of money available in the economy. If interest rates are low, people are more likely to borrow money than spend and hence this creates demand for products. The knock on effect means more employment which means more money being spent in the economy (upturn). Prices rise through higher demand which means prices inflate (inflation). The government reacts to the inflation by putting the interest rates up, which means more money has to be paid back, leaving people with less disposable income to spend on goods and services which reduces demand and the economy slows down (downturn).

8. How has Davis adapted to the changes in the Business cycle?
   In the various stages of the business cycle, Davis has looked for alternative markets; moth balled some of its plants and production lines. It has also relied on other markets depending on the exchange rate. It has also targeted markets that are recession proof e.g. hospital linen which will always be in demand.

9. What are the effects of the recession on an economy?
   Job cuts, repossessions, closing down of businesses, businesses buy out other businesses.

10. What are the differences between emerging markets and mature markets?
   Emerging markets are new markets that are generally at different stages of the business cycle and the products on offer are new, and therefore have a lot of potential growth. A mature market is an established market where competition is far more fierce and the market place is saturated.