

Clare

Welcome to the first in a series of podcasts brought to you by ACCA, the Association of Chartered Certified Accountants, on commercial awareness.

My name is Clare and I am joined by Joe. We will be guiding you through the in's and out's of commercial awareness and how it can help you when being interviewed or staying ahead in business.

Joe

ACCA has close relationships with a range of top employers such as Santander, Price Waterhouse Cooper and the Government Finance Profession, to name a few. We have found that one thing they all have in common is their need for employees who are commercially aware. This is needed from your first interview and continues to grow throughout your career.

In this series of podcasts, we will help you achieve commercial awareness. You need to ask yourself, what is meant by commercial awareness and how can I ensure I am commercially aware and demonstrate that to my future employer?

You often only get a limited number of chances to impress an employer - be it the HR director, the head of department or even colleagues that you are going to be working with. They all know the organisation they work for and so should you. In most cases a lack of knowledge about the organisation and its commercial operations is what leads to individuals missing out on top graduate jobs.

Commercial awareness includes a general awareness of the market place; the economic climate and how to react in order to survive, compete or lead the business to success – all things an employer will want you to be prepared for. It is worth looking at the Research and Insights section of the ACCA website to learn more about current issues, including diversity, finance transformation and access to finance.

Commercial awareness can be simply defined as understanding a business' relationship with its stakeholders and the wider environment in which that business operates in. This includes its customers, competitors and suppliers. Commercial awareness is needed by ALL businesses big, medium or small and in all sectors.

Clare

So, how do we become commercially aware? As you are already listening to this podcast, you are well on your way to developing your knowledge of commercial awareness – well done!

The next step is to read, listen, network and connect to business communications as much as you can. This will help you to build a foundation of knowledge that will improve the way you think, see and apply concepts in a business environment. You can do this by joining social networking sites such as LinkedIn and Twitter for up-to-date industry news, visiting websites such as the BBC, newspaper websites and signing up for RSS feeds. Attending events to network is also a great way to share opinions and learn from others. Company websites have regular news updates and should be your first point for knowledge on them, look for an 'About us' section for a general overview.

From this information gathering stage you will learn how to form new opinions and ideas that will help to improve your performance and success in your current role or for the company you are applying to. Employers are always looking for innovative, practical solutions to remain competitive and your contribution will help them to see how valuable you are to their business. We hope this will help you to move your way up the business and into a leadership position.

Now, let's also look at a structured way of developing commercial awareness by applying it to some well-known organisations. We will look into their:

- Mission Statement
- Core Values
- Products and Services
- Key Drivers
- Finance and Risk

And finally, their Terminology.

Let's get started. what exactly is a mission statement?

Joe

To begin to understand an organisation you need to know what their overall objective is. What is that company trying to achieve? What is its purpose for existence? The company's mission statement should tell you this. The mission statement underpins the organisation's strategy and you should be able to identify what their intentions are, how they position themselves and who their stakeholders are from it.

Let's take a look at a few examples. Pret A Manger's mission statement is as follows:

Pret creates hand made, natural food, avoiding the obscure chemicals, additives and preservatives common to so much of the 'prepared' and 'fast' food on the market today.

So what does that mission statement tell us about them?

The statement makes it clear that they are focused on the preparation of food (their product) and use this to set themselves apart from their competitors. The single-minded proposition is what they focus on to maintain their market position and keep them in business.

Clare

Tesco's, mission statement is *"to create value for customers to earn their lifetime loyalty"*?

This statement clearly demonstrates that Tesco is committed to their customers. This concept is used within their HR department to motivate employees, for developing new products, and for developing Corporate Social Responsibility (or CSR) initiatives such as 'Equipment for Local Schools'. By remaining focussed on their strategy and helping customers to save money, Tesco are able to encourage loyalty and stay successful.

So, when applying for a new role, you need to look at a company's mission statement to familiarise yourself with their company objectives and relate it back to the position you are applying for. This can usually be found on the company website: otherwise ask for it, it will show you are serious about the role. Clearly demonstrate in the interview how you can help them to achieve their mission.

Joe

OK, let's look now at Core Values. These are central to the culture of an organisation and should be the foundation of any decision-making process. What do these core values tell us?

Core values underpin the work of an organisation, how employees interact with each other and their stakeholders, and what strategies should be employed to fulfil the mission. By linking a company's activities to their core values in an interview you will show a basic understanding of strategy and what will be expected of you if you successfully gain employment with them.

This should also allow you the opportunity to build questions into the interview about how the core values are presented internally.

Clare

Let's look at Virgin's Core Values: Virgin believes in making a difference. Virgin stands for value for money; quality; innovation; fun, and a sense of competitive challenge.

Value for Money - Simple, honest and transparent pricing but not necessarily the cheapest on the market. For example, Virgin economy flights are low cost, with transparent pricing.

Good quality - High standards, attention to detail, being honest and delivering on promises. For example, Virgin Atlantic Upper Class Suite has private check-in, a limousine service, lounge, large flat bed on board, and a freedom menu. Virgin delivers a quality service by empowering their employees, and they facilitate and monitor customer feedback to continually improve the customers' experience.

Innovation - Challenging convention with big and little product / service ideas; innovative, modern and stylish design. The Virgin Trains pendolino is a fast tilting train with shop, radio, digital seat reservations & new sleek design. Virgin is one of the world's most recognised and respected brands, and explores new frontiers with Virgin Oceanic and Virgin Galactic.

Brilliant Customer Service - Friendly, human and relaxed; professional but uncorporate. For example, Virgin Mobile has won awards for its customer service, treats its customers as individuals, and pays out staff bonuses according to customer satisfaction survey results.

Competitively challenging - Challenging the establishment and fighting the big boys – usually with a bit of humour. For example, Virgin Atlantic successfully captured the public spirit by taking on British Airways openly. In December 2012, Richard Branson himself said 'I will pay £1 million to BA staff if Virgin Atlantic disappears within say five years. If not, BA pays our staff £1 million. Will BA accept our challenge?'

Fun - Every company in the world takes itself seriously so it's important to provide the public and customers with a bit of entertainment. In 2012, Richard Branson joined all flights 'in spirit' by introducing the Little Richard ice cubes to all drinks for Virgin Atlantic Class passengers.

Those points do tell us a lot about the company and also give rise to lots of questions that you can ask at an interview, but what other ways are there to learn more about a company and how do you find about them?

Joe

Well, one way is looking at their products and services.

You can look at the products and services that a company delivers and there are several ways to develop your awareness about them. For example, the Boston Consulting Group (BCG) Matrix is a simple tool to assess a company's position in terms of its product range. It helps a company think about its products and services and make decisions about which it should keep, which it should let go and which it should invest further in.

The matrix is a strategic growth planning tool. 'Cash cows' (mature products or services) provide the organisation with money that they can invest in 'stars' (new products or services). The failing products or services usually don't produce a profit and cost the business money so need to be sold off and the question marks need to be investigated further to see if they could become 'stars'. Over time and without any development the stars become cash cows and the cash cows become low growth products or services.

Let's apply the BCG Matrix to Apple. Their star product could be the iPad, as it has a high share of the rapidly growing tablet market. Their iPhones and iPods could be their cash cows, as they have a massive share of the MP3 and mobile phone markets. The question mark could be the Mac computer software, as Microsoft tend to dominate the PC market, and their low growth service could be Apple TV, which has never really caught on.

You can find a template of the BCG Matrix within the supporting documents folder.

Clare

So, what are the key drivers that determines a businesses strategy and whether it produces a profit or not?

Key drivers can be internal or external forces that impact on the organisations strategy. These could include:

- Globalisation: impact of BRIC economies (these are Brazil, Russia, India and China, and are commonly called BRIC)
- Environmental: reducing your carbon footprint
- Regulation: increased compliance
- Competition: who, what, where
- Energy: increasing cost of oil
- Exchange Rates: effect on imports/exports

For example, Tesco's key driver in recent years has been the rise of globalisation. In its summary of financial performance for 2012, Tesco reported an increase in trading profit on the prior year that was entirely coming through its international business.

A key driver for Shell is environmental awareness, with the company investing in bio fuels to reduce CO2 emissions, and developing alternative energy sources such as wind and hydrogen. Where as a key driver for the Home Office is diversity, so they have ensured over 20,000 staff have completed their diversity e-learning programme between 2008 and 2011.

Joe

Let's look at finance and risk now. What do you need to be able to demonstrate to potential employers to demonstrate that you understand basic financial concepts?

For a commercial organisation, the basic financial concepts that you should understand include the following:

- Cash is King – a strong cash flow is more important to an organisation than high profits
- Income is the money that a business brings in where as capital is money a business needs to invest. Capital can be debt or equity
- Shareholders own the company and appoint directors to run it
- A balance sheet is a statement of what the business owns less what the business owes at a specific date such as year end
- A profit and loss account looks at expenses and income and calculates what profit or loss the company has made over a certain period, usually a year

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You should also be aware of key drivers such as interest rates which will impact on foreign exchange, bonds, loans and shares. A diagram demonstrating the effects of interest rates can be found within the supporting documents folder. If interest rates rise then so does the value of the pound and the cost of corporate borrowing. However, this has a negative impact on UK exports, on company profits, on share prices and the value of corporate bonds. If the interest rates are lowered then it has the reversed effect. Obviously companies, investors, governments and markets will have factored in any 'anticipated' changes to minimise impact.

Risks are bound up in all aspects of business life from launching a new product to leaving petty cash in an unlocked box. Risk management is being aware of all possible risks, and understanding their potential impact and how to mitigate them.

Examples of risk include fraud, health and safety, quality control, damage to property and systems failures. Certain sectors can also be exposed to additional risk such as regulatory risk in banking or political risk. You can find out more about risk management in the Strategic and Operational Risks article found within the supporting documents folder.

Joe

Finally, you need to understand terminology.

That's right, it is important that you understand the language of business. A document detailing the different terminology used within the various sectors can be found within the supporting documents folder.

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This concludes the first in the series of 'Commercial Awareness' podcasts brought to you by ACCA. We hope that the information we've relayed will provide useful in developing your own awareness of the organisations you wish to work for. Other podcasts in the series look at developing commercial awareness within different sectors – the Public Practice sector; the Corporate sector; the Financial Services sector and the Public sector.

Joe

Thanks for listening, for more information about ACCA and to find the other podcasts in this series, go to www.accaglobal.com/ukgraduates.

Goodbye

Supporting documents:

- A diagram demonstrating the effects of interest rates
- Strategic and Operational Risks article
- Terminology Guide