Other Kinds of Business

Buying and Selling – Manufacturing – Utilities – IT Solutions

Thus far in this book we have made extensive use, as a learning tool, of the published accounts of J Sainsbury plc, the well-known UK retailer, as reproduced in Appendix 1. It will also be helpful to look at some other kinds of businesses, commenting on their different characteristics and financial requirements, and seeing how the principles that we have discussed are applied in their particular circumstances.

There are many possible ways in which businesses could be categorized. In this chapter, I shall follow Horngren, Foster and Datar (1997) in suggesting three main categories of business that have contrasting financial characteristics and requirements: manufacturing businesses, buying and selling businesses, and service businesses. Manufacturing businesses sell products that have been converted into a different form from those that they bought. Buying and selling businesses, whether retail or wholesale, sell products that are, generally, unchanged from those that they bought, while service businesses do not sell tangible products at all; they sell ... services, of many different kinds.

It follows from the distinguishing characteristic of those three main categories that there are probably very few businesses that exist in those “pure” forms. The doctor and the TV engineer are examples of service providers. However, the doctor may also have a dispensary from which you can buy medicines. The TV engineer will come to see to your TV, but may also sell you a new aerial if that is what is necessary to improve the fuzzy picture. The department store will sell you a vacuum cleaner, but will also offer to provide, or arrange for, service and maintenance facilities. The car maker will make cars, but it will also provide support services to its dealers, and it will sell accessories, many of which it will have bought in from other suppliers.

We might think that the service-provider who comes closest to offering a pure service, untainted by goods, whether transformed or otherwise, is...
a member of one of the artistic professions – the musician, for example, or the painter. However, the musician will gladly sell you a programme or CD of the concert, the artist a catalogue of the exhibition. The point is that our threefold classification is only a useful starting point for describing certain characteristics of business, especially their financial characteristics. We shall consider the three kinds of business in turn, again using as examples the accounts of some companies typical of each category. In considering the very broad category of service businesses we shall refer to two contrasting examples – a water company and an IT solutions company. However, since we have spent much of our time so far in the retail world, we shall start with buying and selling.

**Buying and Selling Businesses**

In the process of working through the published accounts of J Sainsbury plc, reproduced with introductory comments in Appendix 1, you will, I believe, have learned quite a lot about their particular kind of business – mainly supermarkets. All that we need do here, therefore, is to summarise the main characteristics that we have already noted.

As exemplified by J Sainsbury, characteristics usually associated with supermarkets are these: they have a substantial requirement for fixed assets – mainly properties, fixtures, equipment and vehicles; they carry substantial stocks of goods for resale, which they turn over rapidly, and which would usually be bought on credit; most of their sales are for cash, so they have few trade debtors, and finally, depending on the relative quantities, which of course vary over time, of cash held, overdrafts and other short-term loans, their current liabilities typically exceed their current assets.

Other buying and selling businesses – wholesalers in general, and some kinds of retailer, for example department stores – sell wholly or partly on credit, the obvious result being that they carry debtors. This, together with the fact that they would typically turn their stocks over rather less rapidly than supermarkets, would mean a greater likelihood of current assets exceeding current liabilities.

**Manufacturing Businesses**

Manufacturing businesses usually, but not necessarily, have the following characteristics: they too have a substantial requirement for fixed assets, such as buildings, plant and machinery; they also carry substantial holdings of stocks, of three main kinds: raw materials or bought-in parts, work in progress and finished goods; most or all of what they sell is sold on credit, so they usually carry substantial debtors. Finally, they also buy on credit, as do most businesses, but because of their often high levels of stocks and debtors their current assets would usually exceed their