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Assignment

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Assignment (Part B)

Financial Risk Assessment

Prevention of Bankruptcy in Retail industry in UK

Introduction

The retail sector is one of the most influential and dynamic businesses in modern society. In this industry, the players have already come and gone as consequences of this ever-modifying feature of the retail business. The procedure involved and the exercises assessed through both traditional and modern retailers are the equal. The aspect that has transformed is the situation which these retailers operate. The uncertainty level in the external context of this business has transformed massively. So, it has become an important part of the procedure of this industry to always be aware and cognisant with the elements of the situation which could impact the organisational operations (Hughes, 2015).

Risk is natural in any walk of life and in retail industry in particular. At present, because of the environment, retailers could not afford to take risks. Risk assessment and management has got much value in the British Economy. The important among the issues faced through the retail sector currently is the problem of considering and controlling the risk (Ritholtz, 2012). This paper concentrates on the risk management forms in retail industry within the UK, examines fundamental risk management terms and hypothetical risk management models.

1. Literature Review

Taking risk is an important element of the retail industry, so retailers have been exercising risk management ever since there have been retail companies. This sector could not have survived without it. The actual transformation is the level of sophistication currently needed to show the complicated and fast-paced environment. Globalisation has ensued in stress on margins. The lower the margin, the larger is the demand for risk management. As a consequence, risk management has become an important issue to concentrate. The challenges of the current retailers are to make sure wealth expansion for their stakeholders, stable with the risk preference. Risk has to be controlled properly and, enough returns have to be confirmed (Ritholtz, 2012). The responsibility performed through retailers is to take a critical assessment of risk. An influence on one retailer can have effect for other retailers in the market. Therefore, risk must be recognised and managed appropriately

Risk

While working together, continually decisions, where the results can't be predicted with assurance because of fragmented data, must be made (Stroeder, 2008, p.135). This risk joined with each sort of business movement is risks. Despite the fact that this term is of focal significance, there does not exist a general meaning of the risk (Wesel, 2010, p.280).

At the point when concentrating on the basic components of the definitions, risk is the likelihood of deviation from an arranged result or objective. As business exercises are dubious with respect to their result and this vulnerability suggests risks to the profit of the firm, an organisation needs to deal with its risk introduction (Retzlaff, 2007).

Risks and Uncertainties

It is important to comprehend that "vulnerability" is a much more extensive term, while "risk" is only a piece of "instability". As per Frank Knight (2006), "risk" is the term used to depict instances of known likelihood, for instance, a store can ascertain the probabilities that the clerk may erroneously check a request for each every sure number of clients and consequently the store record may lose some parity. Instability is the point at which you can't compute the probabilities or make any anticipated supposition. A sample for vulnerability is to anticipate securities exchange cost, for occurrence, fifty years ahead of time. Risks and vulnerabilities are frequently recognised in the dialect of "likelihood" (Ritholtz, 2012). Despite the diverse extent of these two terms, both risk and instability may bring about positive or negative effect to the business operation and require appropriate management. Risks may stimulate from instabilities identified with management, normal debacle, political undertakings, and social elements (Koster, 2009, p99). Grouping of risks as indicated by their impacts or nature is the vital stride to any risk management methodologies (Wideman 1992).

Corporate Risk and Classification of Risks

Risk is the likelihood for threat, adversely unforeseen condition to happen (Oxford English Dictionary, 2013). In a large portion of monetary productions, risk alludes to the negative deviation from the arrangement (Maylor 2010). In fund, risk is identified with the danger towards a venture, or credit (Encyclopaedia Britannica, 2013). Regarding corporate and business, risk is the likelihood that an occasion either expects or startling, may make an unfavourable impact on the companies. Risks or instabilities have their own particular unmistakable attributes which call for specific appraisal and management systems.

As risks are not likely equivalent, in view of the recurrence of happening, taking into account level of results, or base on the way of risk (Hughes, 2015). The research will include hazard risk, financial risk, operational risk and strategic risks.

Hazard Risk

Hazard risks are risk identified with workplace, property, and characteristic disaster. Initially hazards allude to potential damages that can influence wellbeing and security of staff of property (The University of Newcastle, Australia). Other than basic hazard gatherings, for example, physical, substance organic, mechanical and mental which emerge from work environment premises and environment or work practices, risk can develop from wild variable like common fiascos (Ritholtz, 2012).

It is regularly consented to be manager's obligation to alter hazards. Introduction to hazards in work environment does not generally bring about wounds or extreme wellbeing impacts. In any case, keeping hazards from happening assurances staff to work under no pressure (Tony, and Faisal, 2011).

Financial Risk

According to Hughes, (2015), financial risk is a wide term covering numerous negative risks identified with financing, for occurrence, liquidity risk, subsidising risk, loan cost risk, venture risk, evaluating risk, credit risk, et cetera. Financial instabilities can return as support for one business however loss for another. For instance expanding in fuel cost can in addition to the financial articulation for an organisation that deliver or supply fills, yet this value change can make colossal additional expenses for a transportation office. The results and the introduction's degree an association may experience the ill effects of financial risks rely on upon the size of the organisation's financial exchanges: the amount of the borrowings in contrast with its business scope.

Operational Risk

Operational risks as often as possible are outlined as human risks, because of the exchange that the human blunder prompts business operations disappointment. All things considered, operational risks incorporate all risks that acquire from associations' interior exercises including individuals, items or administrations offered operational frameworks, and outer variables (Global Association of Risk Professionals, 2011).

Managing an account is the part confronting operational risks with most probabilities. Despite the fact that banks and speculation organisations are most helpless against operational risks, different sorts of organisations share a typical danger from this sort of risk. A business needs to make an adequate arrangement of staff and assets, and additionally give suitable administration conduct (An Oracle White Paper, 2010).

Strategic Risk

Strategic risks suggest the probabilities of a loss emerging from a poor strategic marketable strategy, choice, or from the conflicting and improper usage as indicated by the arrangement. Strategic risks posture danger to income, capital accessibility and organisation's practicality. Since strategic arrangements show the operation course and system, vision and goals of an association, the lower the likelihood of strategic risk stays, the more grounded the association is. In this manner, sheets of executives are concentrating on how associations distinguish survey and deal with their risks (Tony, and Faisal, 2011).

Understanding the methodologies of the association is the crucial establishment venture in a strategic risk appraisal. The evaluation procedure ought to constantly mirror the corporate model, and be bolstered by substantial strategic risk profile, together with risk management correspondence and activity arrangement. (Frigo M., et al. 2009)

Risk Assessment

As indicated by the risk ability, measures to handle the risk will be picked in the third stage (Wesel, 2010, p.300; Hartman Schenkel, 2003, p.42). Those measures range from risk shirking or aversion, over risk lessening, to exchange of risks lastly acknowledgment of the risk (Henschel, 2008).

A basic measure to handle a distinguished risk position is to choose to stay away from the risk (Form, 2005). In any case, the organisation needs to acknowledge that evading single risks takes out other than the risk additionally all exercises and risks associated with it (Stroeder, 2008). The surrender of conceivable additions of risky exercises is not generally conceivable furthermore not pointed while working together (Hartman Schenkel, 2003).

Rather the organisation can choose to keep the chances and diminish the normal harm. This can be accomplished by either diminishing the likelihood of event of the risk or restricting its financial effect (Form, 2005)

Preventive Measures of Bankruptcy

Since the beginning of the crises, many businesses have had to close down. Most are small and medium enterprises that have been unable to cope with the situation hit them almost without warning. In many cases, bankruptcy is because they have not been able to meet its debts and sometimes, this has joined the money owed Administration or other entrepreneurs has not arrived on time and been forced to terminate a business that until recently was profitable. Getting debtors return the capital borrowed is essential to shore up a company, but it is very complicated, so while this occurs, you can follow other strategies outlined in the following article, to prevent the company goes bankrupt (Okeke, 2015).

1. To detect the first signs that something is wrong

It is essential to tackle the problem as soon as possible. At the moment the company begins to take losses, illiquidity or decrease in the number of customers, we must get down to work to find out where the difficulties come and try to solve them. Leave it for later only it causes complications grow and when the employer wants to solve, it may be too late (Daubie and Meskens, 2012).

2. Accept that society is no longer the same as a few years ago

The company, with its uses and tastes has changed and it is likely that the strategies that led to a company to success not serve today (Okeke, 2015).

3. Consider what the customer today

Neither the Spanish are as before the crisis. The unemployment, falling incomes and an uncertain future have made consumption is reduced dramatically. People who used to buy without fear, every expense today look closely (Okeke, 2015).

4. Accept different opinions

In a time when everything is constantly changing, it is very important being advised. Business organisations, through meetings and courses can give very important keys to bring up a business (Okeke, 2015).

5. Dispense with the superficial

Many times the company has infrastructure to just use local misplaced where he goes very few people, phones unnecessary company for employees, work badly distributed, high fees for meals, a customer of a bank that charges many fees , etc. . If the employer gets rid of the superfluous, it is possible to save money to be spent on more important things (Daubie and Meskens, 2012).

6. Develop a new business strategy

With this information (how are customers today, they ask, what they need, etc.) the employer must develop new strategies change when necessary (Daubie and Meskens, 2012).

7. Betting on teleworking

When the type of business permits, it may be a good idea for employees to make the most of their working time from home. Some companies choose to workers only go to the office one or two days and the rest of the time performing functions remotely (Daubie and Meskens, 2012).

8. Shocking Offers

Temporarily, offers may serve to revive the business. There are companies on the verge of bankruptcy have fallen sharply the price of their products without reducing quality, and have managed to not only weather the storm, but increase sales and generate jobs work (Okeke, 2015).

9. Yourself known after changes

Useless to the new strategy, offers local or renewal, if people do not know that the company has changed. Through advertising and marketing actions can inform the public about new products, lower prices, new product it offers (Okeke, 2015).

10. Using new technologies and social networks

Internet is a very useful to publicise business tool. Today, many people consult through the network information before looking in directories (Daubie and Meskens, 2012).

Grocery Retail Sector in UK

It is the hardest part of any sector and business is to stay on top. The success in the past is never guarantee of new victories. In fact, my research shows that having great success is almost always a warning about failures to come. One of the main stores in UK that has a chance of bankruptcy is Tesco. British supermarket chain Tesco is another major retail chain, which wished that 2014 would never come (Gorton et al., 2013).

As its president, Philip Clark, was responsible for the disastrous 2014, do not let the bad conditions in which inherited the company from the hands of his predecessor, Terry Leahy, Tesco who led for many years (Hood et al., 2015).

Aggressive international expansion ensure that the risk exceeds the strategy; casual response to fierce discounts from their German competitors (Lidl and Aldi); management culture designed to keep things as they are, without alteration; and cantankerous President surrounded by a complacent team (Hood et al., 2015).

Customers seek better deals in a very aggressive price war. Tesco stores 6,500 million have lost value in their books of accounts, which partly explains the poor results, and this month shut 43." Dave Lewis, the head of the firm expected a tough year." The trading profit was 1,950 million. The problem is that in 2013 was of 4,590 and 2014 was the third year of decline (Hood et al., 2015).

2. Objectives of the research

- To identify the risks associated with bankruptcy in retail industry in UK.
- To identify the preventive techniques for bankruptcy in the retail industry in UK.
- To identify the risks of bankruptcy in Tesco and identify the preventive techniques for bankruptcy that would be accurate for Tesco.

Research Questions

- What are the risks associated with bankruptcy in retail industry in UK?
- What are the preventive techniques for bankruptcy in the retail industry in UK?
- What are the risks of bankruptcy in Tesco and identify the preventive techniques for bankruptcy that would be accurate for Tesco?

Explanation of the Research Objectives and Research Relevant to Literature

Considering the past literatures, the researcher has found above objectives and research questions related to it. Since the research is about the prevention of bankruptcy in retail industry in UK, therefore, the researcher has found some risks that are associated with retail industry. As the literature review is a part of the research, therefore, it has added some identified risks that derive the objectives and questions for the identification of the risks linked with bankruptcy in retail industry in UK.

3. Justification of Research Methodology

Research Methodology is the science that provides the researcher a series of concepts, principles and laws that allow one channel efficiently and tending to the excellence of the research process scientific. The subject matter of the MI can be defined as the Scientific Research process, which consists of all a series of steps logically structured and interrelated. This study is based on a set of features and their relationships and laws (Creswell, 2013).

To begin with the literature review, consultation is recommended experts and centres of scientific information must be selected most important literature and initiate a process of reading that should contribute to the creation of chips and summaries of the authors more relevant that they are directly related to the subject of the investigation. Literary sources can be of different types (Creswell, 2013):

1. Primary sources are books, articles, magazines, monographs, thesis dissertations, official documents, reports associations, papers presented at conferences or seminars, newspaper articles, expert testimony, movies, documentaries, video, forums, web pages, articles Internet and others.
2. Secondary sources are references where summaries are mentioned and briefly discussed articles, books, theses, dissertations and other documents relevant to the field of this investigation.

Selection from Alternative Research Methods

Since the paper is about identifying and understanding the preventive measures of bankruptcy by the Tesco. Therefore, the information will be taken from the primary sources for this research. Main research strategy would be primary as information will be taken from the personnel of the Tesco in order to understand their viewpoints regarding the bankruptcy of Tesco.

Principal research or any research that uses primary sources, prefer to use first-hand data or resources. For example, an interview for a social studies project would be using a method of investigation; the investigator is to collect the data itself. Primary sources are also examples of primary research (Ormston et al., 2013).

In turn, the primary sources can be subdivided into: Direct observation and indirect observation. Direct observation is when the researcher takes data directly from the population without questionnaires, interviewers. To collect primary data; the ideal is to use a plan that requires several decisions: methods and tools research, the sampling plan, and techniques for contacting the public (Ormston et al., 2013).

4. Rationale of Data Sources

SSL must use the data from options of observation, surveys or interviews with the study subjects and experimentation. Considering the bankruptcy of Tesco, it is preferable to use interviews for the researcher. The interviews will be taken from the one who is more superior like top tiers of management and managers to know that what preventive measures they are taking to avoid it. There are options from interviews as well like telephone interview, face to face, direct observation, etc. The researcher has taken direct interview to do this research (Ormston et al., 2013).

Personal Interview: conversion is generally between 2 people (one on another interviewer and the interviewee). Questions can be recorded on a ballot questionnaire called either be assistant recorder for recording data. When a structure is possessed set of questions or a sequence of questions is set previously known as directed interview (Ormston et al., 2013).

The researcher has taken Tesco to study for the bankruptcy in retail sector in UK as Tesco has probability to face bankruptcy in UK therefore the researcher has taken this company to identify their preventive measures that they are planning to implement in order to avoid the bankruptcy in future.

5. Rationale of Data Analysis

A system software that would be used by the researcher is Saturate, which is specifically a tool that analyses text, audio files, and in which own codes can be made. As a web app, this software is specifically useful for the team projects that permit multiple team members in order to contribute by coding the interview transcripts. Hence, all the coding is exported as a collection of SCV files that can be imported within a spreadsheet (Creswell, 2013)

1. Insufficient cash reserves: insufficient cash to carry the business for future transactions and profits.
2. Failure to adequately anticipate cash flow: when the company is unable to pay-off the quick payments to the suppliers for inventory
3. Failure to react to competition: this is the time has come on Tesco since there are massive competitions and for that reason, the challenges have become demand for the customers.
4. Uncontrolled growth: same is the case with Tesco that explains that too much business can destroy the company and Tesco has reached to point.
5. Overgeneralisation: when company tries to do everything for everyone since it is a road to ruin.
6. Putting up with inadequate management: common problem faced by successful companies grows beyond the management resources and skills. Company grows and surpasses individual’s ability to manage and plan.
7. Poor management: this happens while expansion in Tesco when it moved to Korea, which is no more there because of poor management.
8. Overdependence on single customer: it is realised when an individual customer lose up with large base of small customers that is much preferred.
9. Failure to correct the price of product or service correctly: when the company lose an interest from the pricing strategies then the company is in real risk and is about to ruin soon.
10. Distribution costs are extremely high: when the additional costs are high with the case of market penetration as it is the case of Tesco that has massive rivals and it is penetrated in the market profoundly but still the distribution costs are high.

11. Expensive: Tesco is not expensive but its rivals are offering low rates than Tesco to its customers therefore, the switching of the customers is going in a rapid way.
12. Economies of scale: high investments in information technology and marketing are covered with high turnover.
13. Price: internet has made the price transparent, which is a great concern for the online retailers.
14. Tailoring: when company follow tailoring aspects but Tesco doesn't offer any tailoring product that has customised matter.
15. Differentiating the business: when food retailers also come up with financial services like banking, insurance, and mortgages. Unfortunately, Tesco also offers financial services to its customers that make it wider with its operations.

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