BEING MORE REASONABLE IN BUSINESS

Journalism with a Bite!

AMORY PUBLISHING

These days, in this country even those with competences are being downtrodden by "Corporate Britain".

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"A quality now often sorely lacking."

– by an ex manager

Chris Burnell MA

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Examples of being 'unreasonable' in business

Article I
'Social Care'

The 'bosses' in social care are always complaining on TV about their situation, but I want to bring a few anomalies to light.

My mother, while she was alive (until 2019) had 2 or 3 care workers a day visit her, either for 15 minutes or half hour appointments. Because she had some savings, she had to pay. I believe it was about £11 for a 15-minute appointment or about £17 for a half-hour appointment. The care workers told her they got paid only £2 for doing a 15-minute appointment (and I think £4 for a half hour appointment). Many of them didn't have cars and had to walk between appointments. And they weren't paid for this 'walking time'.

Suppose the company had about 150 care workers on their books and about 10 'management staff'. This is what I've heard might be (approximately) the case for many of these firms. It can clearly be seen that the 'management staff' must be earning a fortune, and probably most of this went to the 2 or 3 owners or directors of the company. You don't need to be a mathematician to see that there are some dreadful inequalities going on here.

Also I have heard from my own brother (regarding my sister-in-law's mother, who is in her nineties and who has dementia), that people* who interviewed her with a view to setting up a "social care package" – "dropped her like a stone" (in my brother's words), when they found out that she rented her property and had no savings (so that the council would have to pay).

From this I would speculate that the problem of "bed-blocking" in hospitals (where elderly people are "medically fit to leave hospital", but cannot leave because a "social care package" cannot be arranged) nearly always happens when the person has no money and when the council would have to pay. When the person has savings and so the social care company can make about a 400% profit (as with my mother), I expect there is <u>no problem at all</u> in arranging a social care package.

** The attempted arranging of a "social care package" (described in the 4th paragraph) may have been by the Council or Social Services, rather than by the Social Care company.*

Article II
British Gas

I live in a 1-bedroom flat which has a gas central heating system – a boiler and a few radiators. I'd had a bit of trouble with the boiler, and when I called a plumber on a couple of occasions, they didn't seem to have much knowledge about boilers, and couldn't help me – partly because of this I signed up with British Gas's Homecare Service. This cost about £25 a month, for which I got a service each year, and if I had to call a service engineer out for a problem, I would have to pay an extra £60 for each visit.

Silly me. I thought this was a kind of 'insurance policy' and that more or less whatever went wrong (short of actually needing a new boiler) would be covered by this.

Bear in mind that my previous knowledge in computing (my main job before I became self-employed) is well out of date now, and without any other 'trade' any job I got these days would probably be near the minimum wage – so I saw £60 as (in my case) practically a day's work.
But no – when I had a problem with the boiler, I

arranged for a service engineer to call (for the £60). He called, and said it was quite a 'big job' and was chargeable. When I got the quote through by email, it was for £840!

[It turned out that it was for what they call a 'power flush'. I did manage to get it done for about half that amount by another heating engineer I found – which seemed to be the going rate for the job (apart from with British Gas). It was about a 3-hour job which I don't think required any parts – it was just labour. The heating engineer that did it told me that British Gas usually contract these jobs out to self-employed plumbers and paid them about £200.]

Article III

The Post Office

Lots of people at the Post Office, at all levels, including at the very top, must have been aware of how, apparently, the ‘class’ of sub-postmasters had suddenly become a ‘highly criminal class’. There had presumably been 20 or so cases of fraud each year during the 60s, 70s, 80s and early 90s (that’s a guesstimate – I don’t know the exact figures). And then suddenly, from whenever Horizon went on-stream, there were hundreds. You don’t need statisticians to tell you that something is very wrong here. Anyone with an IQ of above 70 should have been able to realise that. Come to that, a company as big as the Post Office <u>would</u> certainly have statisticians in their employ. They are trained to treat a 5% difference as ‘noticeable and significant’. So, what did they do when they came across a 600% difference (or whatever)? Nothing, apparently.

But anyway – what I have written is obvious to everyone. There is no point in dwelling on it. The main thing I want to talk about in this article is the compensation offered to the thousands of sub-postmasters affected.

Bear in mind that for a lot of them (perhaps most) their lives have been ruined by this. Many went to prison. Quite a few committed suicide, and a number died without knowing they would eventually be exonerated. Even more were bankrupted*. Afterwards they were probably only able to get jobs like cleaning or delivering pizzas – very much jobs at or near the minimum wage, almost certainly with no pension either.

Bear in mind that they had probably looked forward to secure employment with a salary of over £40,000 a year (not just the Post Office salary – most sub-Post Offices were part of a more general shop). They almost certainly would have made provision for a good pension too. All that is gone.

I believe the sort of compensation these people might probably be getting is something like £80,000 to £100,000 (and even that is a long time coming). But I want to say that that will not in any way make up for what they have been through. Their lives have been ruined almost as much as someone who has been in a car crash and is unable to work for the rest of their life. And I believe in that case the compensation would run into millions – which the insurance company has to pay. So, I believe the compensation for the sub-postmasters should be of that order (or at least 1 million). I realise that that would mean that the total compensation paid out by the Post Office would be over a billion pounds. So be it. If the Post Office (now privatised) cannot pay, the government should pay (they should pay anyway, because they owned the Post Office when the scandal happened). And firms losing this amount of money is not unheard of these days. Meta has recently had to pay $725 million. And Volkswagen are having to pay about £26bn for that false emissions claim scandal.

And another thing. As it happens, straight after university, in the late 70s, I worked for GEC Telecommunications on a very big contract they had with the Post Office. It was called System X and was the digitalisation of the telephone network. I was one of hundreds of software engineers working on it at GEC. (And there were also hundreds at Plessey.) This was for Post Office Telecommunications, which was later to become B.T. when it was privatised, sometime in the 80s.

And I do remember that with this enormous project, the Post Office was extremely 'hands on'. They never let you forget that they were the boss. I left within 2 years, while I was still a junior programmer, but I remember that the Section Leaders (who might have been in charge of about 6 software engineers), were very frequently visited by

Post Office 'experts' who wanted to know exactly what was going on. I believe it was at least once a fortnight that a Post Office 'expert' visited each of the Section Leaders, and I think it was usually for the full day. You could always tell when a Section Leader was going to be visited by Post Office staff. They would be dressed in a suit, whereas normally they were very scruffily dressed, usually in jeans. There were also very numerous meetings attended by several Post Office employees, and a similar number of GEC employees. And even the programming language we used, which was a so-called 'real-time' programming language (more complicated than a 'standard' programming language like Cobol) was called POCoral – the PO stood for Post Office – it had been specially designed by Post Office experts.

I'm telling you all this because I just don't believe what the Post Office is trying to imply – that the Horizon program was completely designed by Fujitsu, and as far as the Post Office was concerned it was just a 'black box'. Far from it, I expect. I wouldn't be at all surprised if Post Office staff were intimately involved with the design of Horizon, as they were with System X, and so the Post Office itself must take a big share of the blame for the faults in the system.

* In the case of victims of this scandal who went bankrupt, when they receive compensation (particularly if it’s a relatively low compensation of £80,000 to £100,000), a large part of this, possibly as much as 90%, will be ‘clawed back’ by the ‘Official Receiver’ (See ‘Private Eye’ magazine No. 1588 (16 Dec. – 5 Jan. 2023))

Article IV
Coffee Shops

I'm old enough to remember the old Ralph McTell hit 'Streets of London' (recorded 1969). Part of it was about an old man (and the implication was that he was poor as well as being old) who was so lonely that he spent all day every day in a café drinking tea. The lyrics went 'each tea lasts an hour, and he wanders home alone'.

That couldn't happen today, could it? I'm sitting here in a coffee shop, writing this, and I notice that a cup of tea costs £2.35. For an old man to have, say, 8 cups of tea in a day, it would cost £18.80. If he did that every day, it would set him back £131.60 a week – most of his state pension.

And it probably only costs 2 or 3 pence to make a cup of tea. In coffee shops, coffee is even more expensive – about £3.50 a cup. Again, it probably costs less than 10p to make a cup of coffee – 25p perhaps if it's made with nearly all milk, as in a latte.

I'm sick of these places making such a ridiculous mark-up. It's not much different with the food that they sell. You get a small slice of cake for £2.50 -

£3. And you can buy a whole cake (6 slices?) for about £2 in a supermarket.

I realise that they have overheads, of course. The rents are high, and so are the Business Rates. But they pay their Baristas near the minimum wage. Talk about a licence to print money!

Being More Reasonable In Business

A lot about Big Business, and a little about the Press, and the Government (with some controversial ideas).

Article V

The Secret Of Those "Permanent Half-Price Sales" And More Info On Consuming To Make One's Blood Boil!

Those "permanent half-price sales" - it's all a big con, you know.

The motive behind the con is this.

It's well known in marketing that the public won't often respond to a sale where things are marked down by 10% or 15% - very few more of the goods will be bought than at the original selling price.

But the public usually will respond where the price cutting is around 50% - very often 2,3 or even 4 or more times as many of the product may be sold.

So that is the motive. How do they do it?

I believe the secret is what in business is called "vertical integration". This is when a retailer or manufacturer buys up some of their suppliers. (It works in the other direction too – like when a manufacturer buys shops to sell his goods in.)

So, where's the connection between this and "permanent half-price sales"?

I believe it is this.

These firms that are always advertising on TV with their offers that sound so marvellous – it's not like the owner had won a couple of million on the lottery, and decided to set up a large retailing business, and wrote to a few manufacturers for details of their products.

It's not like the manufacturers responded to his request with a catalogue and price lists with the retail prices down one column and the wholesale prices down another.

In practice, I'm pretty sure, these large retailers (in certain trades) virtually own the manufacturers they deal with. So, effectively, they set their own retail prices.

And of course, noting that the public will respond to things reduced by 50%, but not to goods at only 15% off (say), they set the retail prices accordingly.

It's a bit hard on some traditional firms, who do send off to manufacturers for price lists, though. Typically, they may only get 30% or 35% off the retail price as commission, so their sales can look pretty lame – and it's largely because of the prevalence, in some industries, of these permanent half-price sales – I believe – that the public will no longer respond to less attractive sounding offers.

(CHANGING THE SUBJECT)

I have been reading the famous book "The World is Flat" by Pulitzer prize-winning author Thomas L Friedman. He is a journalist at the New York Times. This was <u>the</u> book to read a few years ago when it came out, and one of the most talked about. It claims that the turn of the Millennium heralded a new era in the "globalisation stakes" and gives the author's views on that. (He had previously written another book about globalisation up to just before the Millennium, called "The Lexus and the Olive Tree: Understanding Globalisation" - published in 1999.)

"The World is Flat" certainly opened my eyes about some of the issues of globalisation.

It seems that with the lower wage rates in India and China, hardly any of our jobs are safe, even (or indeed, especially) the jobs of professionals. Any type of work that could in some way be "digitised" could be farmed out to an organisation in India or China and performed for a much lower cost than would be possible in America (or Britain). He gave as one of many examples the completion of tax forms – accountancy was one of many professions where jobs certainly aren't safe.

Both India and China are building (or have built) a superb educational system. Their many universities (the elite ones anyway) are arguably superior to most of those in the West. They are particularly hot on engineering and computer science subjects.

But it was the wage rates of the graduates from these universities (and other high achievers) that really amazed me. Just to give a couple of examples.

1) (Quote from "The World is Flat")*

"There are about seventy thousand accounting grads in India each year, (L Gary Boomer) added, many of whom go to work for local Indian firms starting at $100 per month."

(L Gary Boomer is a CPA [that's equivalent to a Charted Accountant in the UK] and writes in the journal "Accounting Today".)

2) Friedman's book says call centre workers – who not only have to speak English (or American) fluently, but also learn various regional accents, so that it seems that they are in the region from which the phone call is placed – are regarded as the elite (even more than accounting grads).

The pay of workers at 24/7, a very large call centre operation in India, starts at $200 per month. (You can tell how much of an "elite" job this is, by the fact that the 24/7 call centre gets about seven hundred applications a day and only 6% - about 40 – of them are hired.)

$100 per month is £65.20 per month or £15.05 per week. $200 per month is £130.40 or £30.10 per week (exchange rates at 22/9/11).

Remember that, as I said, the people who get these jobs, at these rates, are the elite. So, goodness knows how low the wage rates must be for more "ordinary" jobs, for example (factory) manufacturing jobs.

Perhaps an ordinary manufacturing worker would earn about £10 - £12 per week – that seems feasible. It makes you wonder, with figures like these (and also when you think of what can be bought from places like Poundland for £1), just how many of the goods we buy from shops in the UK for between, say, £70 and £200, were bought by traders or the buyers in large chain stores for perhaps between £5 and £10!

* I have quoted from the edition of "The World is Flat" which was published in 2006.

Note: Whilst the press will sometimes expose individual "one-off" rip-offs, they probably wouldn't want to expose whole sections of marketing practice, because that would most likely considerably affect their advertising revenues – many papers probably make more money from their advertising than from the sale of the papers themselves.

Article VI
About Private Equity Firms

There has been a lot of talk in the press about Private Equity Firms, but most people still don't know that much about them.

Private Equity Firms buy and sell whole companies. The deals are so huge – they have been able to raise so much money – that at one time practically no UK firm was too big to be a Private Equity "target."

Typically, about a fifth or a quarter of the cost of a firm will come from the Private Equity Firm's investment fund, and the rest will be borrowed from a bank (or banks).

Most of the income Private Equity firms make is due to the Capital Gains that they make when they sell a business they have previously bought.

The investment fund is what is increased when a company is sold for a profit, but typically 20%* of this profit is kept by the Private Equity firm – it is what is known as the "carry".

One example of a well-known UK firm being bought by Private Equity was Alliance Boots (owners of Boots the chemist). At the beginning of 2007 it was bought by just about the most famous US Private Equity firm – Kohlberg Kravis Roberts (KKR) – for £11.1 billion. £9 billion of this was borrowed from banks.

The way it all works is this. Suppose the private equity firm buys a company for £10 billion, of which £8 billion is borrowed. Then £2 billion is provided by the Private Equity firm's investment fund. This isn't the Private Equity firm's own money, but is similar to a unit trust – it is provided by investors. If the Private Equity firm goes on to sell the company for £13 billion after, say 3 years, the "equity" (a similar idea to the equity in a house) has grown from £2 billion to £5 billion. i.e. £2 billion has produced £3 billion profit. The Private Equity firm will keep 20% of this profit (the "carry") - so in this case £600 million is what the Private Equity firm itself earns from the deal.

[Typically, most of this £600 million will go to just a very few (perhaps 2-5) "senior partners" in the Private Equity firm. No wonder the Private Equity business boasts quite a few multi-billionaires (especially in America). And what is more, because the New Labour government (of 1997 – 2010) was keen to "keep on the right side" of these people – they believed it was good for the country that they stayed in the UK – they introduced extremely favourable tax treatment for them. It can be seen that this £600 million is really the Private Equity firm's income – but it would not be taxed as income (which would attract a 40% rate), but at a special low rate (10% recently increased – because of a public outcry – to 18%) of Capital Gains Tax.]

How the Private Equity firm aims to make that £3 billion (or whatever) profit in selling the company they've bought, after perhaps 3 years, is usually by instigating a ruthless efficiency drive in the company, so that overheads are dramatically lowered, and profits increase. (This will tend to increase the value of the company.)

Typically, they will do this (partly) by getting many of the lower paid workers to significantly increase their "productivity" whilst paying them hardly anything more per hour worked.

No wonder unions campaign against Private Equity deals. So, many businesses, having been bought by Private Equity firms, from then on pay hardly any Corporation tax, or even are paid tax credits from the taxman if the interest payment is high enough.

And a common way in which the assets of a business a Private Equity firm buys are plundered, is that they immediately sell off the freehold properties that the business owns (to specialist companies) – and then lease them back. This “frees” capital.

* Private Equity firms tend to be secretive about this figure. 20% is Robert Peston’s estimate of a typical figure. (Robert Peston is a BBC financial commentator and author of “Who Runs Britain”.)