

# Consultancy advice for Aedis-Homes

## Suggested answers

### Notes about the case-study:

- ▶ SWOT analysis will show that Aedis-Homes strengths area: its reputation; its experience and building expertise; the country-wide coverage it has in the UK; knowledge about the local market.
- ▶ Its weaknesses are the inefficiency in the business arising from poor organisational structure and practises. It may also indicate staff complacency as the way things have been has been allowed to continue to date.
- ▶ Aedis faces threats of: a difficult economic climate; decline in its market share (if it doesn't improve); possible takeover bid (the shareholders haven't been given a dividend for the last year and also likely in the current year); operational problems due to poor organisational structure.
- ▶ However, opportunities still exist:
  - a) Expansion into international markets;
  - b) Zero-carbon homes development in the UK;
  - c) Cost-reduction through rationalisation
  - d) New Town building
  - e) Productivity improvement through a more entrepreneurial culture.

At the end of 2016, Aedis-Homes closing balance was £281.3 million. It's financial position will allow it to invest in all four projects suggested in the case scenario:

However, its finances will need to be managed carefully, as the joint overseas venture is not completed for 2 (or) 3 years, and the returns from the New Town project are not realised until 2019.

Continues overleaf...

	£'million
Zero carbon homes	21
Project New-Town	110
Company rationalisation	75
Joint venture overseas	25
<b>Total possible investment in 2017</b>	<b>231</b>



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## Suggested answers continued

### Considerations:

- ▶ The organisational structure and practises have been inherited by Aedis-Homes from the various small companies that it acquired over the years. There are inefficiencies in the structure and operations of the business and a saving of 40% is advised if restructuring is carried out. This is the least risky project, but also must be carried out in order for Aedis-Homes to compete effectively for future business.
- ▶ The redundancies in the regions need to be considered carefully so that essential staff are retained. If staff in similar posts are required at the Head Office then existing regional staff should be incentivised to relocate.
- ▶ Ziggurat plc has stolen a lead on Aedis in the home market, by building zero-carbon homes that customers wish to buy. If Aedis doesn't invest in building zero-carbon homes then it forecasts 6% annual loss of sales. So there are benefits to be gained for a modest investment – not only in terms of the profit achieved, but also the expertise and the acquisition of resources to build zero-carbon homes in other contracts.
- ▶ The New-Town project can be profitable but it requires a high initial investment. Also, there is strong reaction against the development from local residents and other groups. Thus there is a reputational risk. Aedis could propose that green-homes will be built on this site and show the longer term environmental benefits of this (lessen the opposition to this project). Also, whilst Aedis is able to make the initial payment of £110 million, subsequent costs will need to be covered from operating cash-flows and bank loans – so you may be more cautious and have opted for the other projects and ignored this one.
- ▶ Joint international venture: this is the riskiest of all the projects because Aedis is entering a new overseas market which it has little experience of. It will also work with a business-partner whose practises, at least in relation to one possible partner (Realto Homes) is unethical – they also go against the requirements of the UK Bribery Act.  
  
Is there also a culture in the international country of expecting bribes – a practice that Corniche Estates could also be involved in?  
  
On the plus side, however, and with the right partner, the return yield is high for a relatively modest investment and this project could lead to other international opportunities. Aedis could manage the ethical risk by putting in place appropriate contractual clauses in the partnership arrangement and have stringent audit of the project activities.

### Proposed activity priority order:

Aedis can afford to do all four projects, in financial terms, as the closing balance at the end of 2013 is £281.3 million and the four projects together would lead to an initial investment of £231 million in 2017.

Proposed activity priority order: D, A, C, B

However, you may have had a more cautious approach and opted to leave out project (B) or (C) or both.

### Ethical considerations:

Looking at the proposed joint-venture partners, a JV with Realto Homes could be more profitable (by £9 million) compared to JV with Corniche. However, Realto has been paying bribes to the contract-awarding organisation and it would be prudent for Aedis to avoid a relationship with such a partner. Also, Corniche uses MMC which will result in a faster build so whilst the profit may be slightly less, the return on investment will be sooner.

Note that ethical issues can arise in any country, including the UK. For example, if a company is under financial-pressure or time-pressure then it may be tempted to cut corners which may lead to health and safety issues, or issues regarding the quality of the product/service provided (or both).