

Business management

Case study: P&S Trawlers

For use in May 2020

Instructions to candidates

Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

P&S Trawlers

For many generations, Pekka Heikki's family have been involved in the fishing industry in Finland, a country with a long tradition of commercial fishing. At times, the family business, *P&S Trawlers (PST)*, flourished, with good catches of fish and strong market prices. At other times, it struggled. A low point for the business occurred five years ago, when one of its trawlers sank in a terrible storm.



The business had always been a family partnership, but in 2010 Pekka's father, Shae, and mother, Patsy, decided that they should convert the business to a private limited company. One important reason for this change was the increased risks to the family brought about by more expensive boats and uncertainties in the market. Another reason was the greater governmental regulation of the industry, which increased the family's potential personal liability if anything went wrong. Following the conversion, Pekka and his sister, Tapio, each owned 40% of the company shares and their parents owned the remaining 20%.

Finland is a country with a long and very beautiful coastline. Fishing is its largest industry, followed closely by tourism. Tourists visit Finland for a range of reasons, including sightseeing, outdoor activities like skiing, and city breaks. Technology is its third largest industry and is growing rapidly. Finland exports large quantities of fish each year. However, the government is very concerned about environmental sustainability, so it has imposed fishing quotas. Pekka is responsible for all activities relating to *PST's* trawlers and crews. Tapio is responsible for other areas of the business, including marketing, finance and administration. *PST* has always fished responsibly, with the aim of preserving fish stocks for future generations.

Now, *PST* has a very uncertain future. In response to the global trend in overfishing, governments are increasingly imposing restrictions on the size and types of fish that can be caught and stricter quotas on the weight of the catches. Future restrictions and quotas may restrict *PST's* activities and reduce future profits. Recent Finland government trade agreements with other countries have also allowed foreign trawlers to catch more fish than previously allowed. Some of these foreign trawlers illegally overfish. The large catches of these foreign boats are reducing market prices and further reducing *PST's* ability to earn a reasonable income. A further problem is that many technology businesses are relocating to Finland and paying higher and more stable wages. In this environment, many smaller fishing businesses are struggling to survive.

However, there are some positive factors for *PST*:

- y The family has a strong determination to overcome the challenges faced by the business.
- y In the past, careful management of money enabled the business to survive threats.
- y The *PST* workforce is loyal and hard working.
- y *PST* uses the latest technology.
- y For many reasons, people are switching from eating meat to eating fish.
- y Labour turnover at *PST* has been low.
- y The government has a policy of supporting responsible and ethically managed fishing businesses.

Today, *PST* owns three trawlers and employs 40 people. Each trawler has a crew of seven. Trawlers are often at sea for several days, as Finland's best fishing waters are far away.

45 Under Pekka's supervision, fishing crews unload the fish when they return to port. The fish is kept chilled in *PST*'s warehouse. *PST* freeze some of the fish. Tapio manages the employees who work in the warehouse. She also has a team of employees who carry out administration, such as record keeping, issuing and paying invoices, and managing the subcontractors who service the trawlers, transport the fish to markets and provide fuel. Some human resource and

50 accounting functions are outsourced.

As a family business, *PST* has always tried to create a friendly working environment. Teamwork is essential, particularly for the crews of the trawlers when they are at sea. The work on the trawlers can be dangerous, so good training and discipline are important at all times. All crews undertake extensive induction training. There are also additional training sessions on board

55 the trawlers to update the crews' skills. In addition, all crews are required to attend annual training for health and safety and safeguarding at a local college. Pekka takes responsibility for mentoring the trawler captains.

Pekka is strict with all aspects of the management of the trawlers and crews, including rigorous application of health and safety laws, compliance with government regulations and quotas, and accurate record-keeping of the fish caught. He has excellent working relationships with the crews, and he insists that there is no room for taking risks. He is strict with procedures and responsibilities. All the trawlers and the overall fishing operations have a clear command structure. Pekka supports the trawlers' captains if disciplinary matters arise. *PST* pays good salaries to crew members, and crews receive generous bonuses for good catches.

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65 Every six months, one trawler is taken out of operation for a major service, which lasts a month. As a result, the trawlers remain reliable, outage costs are reduced and operating costs are improved. The trawlers also last longer before *PST* decides they need to be replaced. This means that scheduling the trawlers has to take planned outages into account. In addition, scheduling trawlers and crews can be difficult because of the weather and other unpredictable

70 events. A fishing trip may take longer than planned and the crew will expect time off between trips. Equipment, such as nets, can be damaged and can take several days to repair, losing valuable fishing time. Sometimes, replacement of a broken or worn mechanical part can take up to two weeks to be delivered. Pekka would like to find a way of replacing parts quicker and more easily.

75 Historically, the crews at *PST* have been all male. However, several women have recently asked to work on the trawlers. Pekka and Tapio recognize the need for diversity. Pekka thinks that diverse crews would be good even though only about 3% of trawler crew members in the European Union, and about the same in Finland, are female. Tapio is concerned that additional costs would be involved in employing women and that there may be practical problems on

80 board ships, such as sleeping arrangements. Pekka is worried about how the all-male crews might react. In Finland, all employment is covered by equal opportunities legislation. However, low labour turnover in the trawling industry means that there has been very few opportunities for women to work on trawlers.

Tapio is open-minded and flexible about the ways that her teams work. She encourages new ideas and alternative ways of working in the office and warehouse, as Tapio oversees the staff in the warehouse. She delegates tasks whenever opportunities arise. Because some tasks are more interesting than others, she operates job rotation.

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Some of the fish caught are sold in the local fish market to hotels, restaurants, fish shops and local residents. *PST* also sells fish directly to *Presto*, the country's biggest supermarket
90 business, and some of its fish is sold through agents to overseas markets. *PST*'s fish is very high quality and generally sells at a premium (high) price. The market price is subject to fluctuations due to factors such as the weather, the season and the activities of competitors. However, sales to *Presto* are on a fixed contract at a price that is usually lower than market
95 shops. Competition is high, so *PTS* is in frequent contact with the hotels, restaurants and fish shops to ensure it retains its customers.

Recently, business news reporters have started speculating that new trade arrangements between countries will make selling overseas more difficult. Tapio may have to find some new markets and develop a revised marketing strategy.

PST's financial performance is changing. **Appendix 1** shows extracts from *PST*'s accounts for the past two years, with a projection for 2020/21. Major items of expenditure for *PST* include
100 fuel for the trawlers, salaries and rents for the office building and warehouse. Fuel and salaries are paid for at the end of each month. Rent is paid a month in advance. While local customers are expected to pay for their orders immediately, restaurants, hotels and fish shops have one month credit and supermarkets have 90 days credit.

105 *PST* has recently installed the latest satellite technology on its trawlers. This electronic equipment enables better monitoring of fish shoals, thereby improving navigation and the chances of good fish catches. Improved technologies enable *PST* to maintain more detailed and accurate records about catches and allows it to send this information automatically to the government, which monitors all quotas. Improved materials for nets and modern on-board
110 equipment have reduced the need for repairs and reduced lost fishing time.

Both Pekka and Tapio think that the business should grow. Tapio wants the business to diversify. Some of her ideas include opening their own fish shops, offering services and facilities to other fishing businesses, and finding alternative uses for the trawlers. Pekka thinks the best way to grow is through buying updated and larger trawlers similar to those operated by overseas
115 competitors.

Appendix 1: Extracts from *PST*'s accounts

	2018	2019	Projected 2020
Sales (\$m)	12.7	14.5	11.9
Net profit margin (%)	11	13	8
Salaries (\$m)	6	6	6
Fixed assets (\$m)	2.5	2.5	2.8
of which intangible assets	0.2	0.2	0.3
Current assets (\$m)	0.5	0.4	0.3
of which:			
stocks	0.2	0.3	0.15
cash	0.2	0.0	0.0
Current liabilities (\$m)	0.2	0.3	0.4
of which:			
creditors	0.2	0.1	0.2
overdraft	0.0	0.2	0.2

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are coincidental
