



## TPE 2023 – Case Study Part 2

Southerwood

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## CASE STUDY

It is two weeks later. Quentin Royce has called you in to see him at lunchtime.

“Sorry to interrupt your lunch Pat but I leave for a short holiday in 10 minutes,” he says.

“The Southerwood assignment has moved on. I knew that there would be more fees from this client. Denise Fong spoke to me this morning. She will be in one of the meeting rooms now, waiting for you. She needs a report on a few matters. You will have to write it and give her a draft tomorrow. I can look at it when I return from holiday and sign it off then.”

“That does throw me in at the deep end,” you say. “What if there are any issues? I wasn’t happy with several things I came across in my previous work.”

“Oh, if you must, send an email to our ethics partner and he will advise you. Do the report first though. I must go.”

With some trepidation, you go to the meeting room.

“Hello, Pat, it’s nice to meet you,” says Denise Fong. “Have you been following the team’s results? The new coach that RP appointed has lost his first two matches in charge.

“Several matters have come up and I need an urgent, wide-ranging report from you. I know Quentin is away but I need it tomorrow and he has every faith in you.

“Things have moved on since I met Quentin,” begins Denise. “The weekend’s results mean that Southerwood can’t win this year’s English League 1. Losing our first four home league games is unheard of for Southerwood. It means no European Cup for the club next year and we know what that means for our revenue. It’s just not good enough and I blame the current board.

“I need FYC to prepare a report to advise me on how I should proceed with my investment in Southerwood. Quarter 1 performance was poor and things don’t seem to be getting better. I’ve spoken to my father and he spoke passionately about Southerwood and its reputation as a family-focused, community-friendly club. If I am to remain involved in Southerwood I think it is vital that the club focusses on these aspects.

“In the last week, the stadium has been inspected by structural engineers following the incident in the stairwell in the East stand. They have concluded that all the stairwells in the East stand are structurally unsound and have recommended that the East stand should be closed immediately and it will need to be demolished and rebuilt. The estimated cost is in the region of £22 million. Luckily, the corporate hospitality suites, club offices and club shop are all in the main stand and are not impacted. That stand does have around 25% of the available spectator seats at the club and, although we don’t expect to be permitted to return to full capacity any time soon, I would like you to discuss the impact assuming we could open the entire stadium for fans.

“I need your advice on how to proceed; how we might raise funds to do the work and the practical impact of this issue arising in the middle of the rugby season.

“Despite the current situation, we also need to consider business as usual and the operating position needs to be improved. I’ve spoken to RP about the recruitment of a new finance manager or director and he’s going to start that process. However, that is likely to take weeks or months and we need to start turning around the financial position now. I’ve come up with a few ideas of my own (Appendix 1) that I’d like you to evaluate but if you have any other ideas of ways to boost our income or reduce our costs then let me know. I need you to state your ideas clearly and concisely and to make sure the practical implications are clear. I want you to assume that business will return to normal and so your viewpoint should be that of a post-COVID season.

“RP is adamant that the women’s team should be discontinued as it hardly brings in any income. I think it is important that a family club such as Southerwood is seen to be promoting rugby for all and I don’t agree with him. I’d like you to include a section in the report with your thoughts on how we could make the women’s team contribute more to the club, from both a financial and a community perspective. Unlike English League 1, the women’s Yorkshire League has not resumed, and it looks unlikely to happen for some months. However, I want you to report on this area assuming that it is a post-COVID season.

“Gavi Giovanni has explained to me that Southerwood has a number of supposedly mutually beneficial trading arrangements with manufacturers or distributors of branded souvenirs and merchandise sold online through their individual websites, in the stadium shop or in hospitality. Southerwood receives a fee or commission from the manufacturer or distributor. Each contract specifies that Southerwood has the right to appoint auditors to inspect the accounting records of the manufacturer under an open-book agreement. Giovanni has never done anything about this but I would like FYC to let me know how I could get comfort that Southerwood is receiving the correct amounts. Can you give me some details on what would be involved, what type of assignment would be carried out and some details of the work that could be done? Also, any immediate thoughts you have for improvements would be useful too. I have brought with me some examples of the contracts with manufacturers and distributors (Appendix 2) for you to review.

“Finally, while my family and I have a significant attachment to Southerwood, I do need to consider how I might be able to get a return on my investment in the future. Perhaps you could include your thoughts on how I might be able to sell some of or all my shares in the future. Sports clubs are so unpredictable and don’t always make for a good investment. Given the varied problems that I need to deal with, I am tempted just to sell up and get out but the financial side is important.”

“Ok,” you say. “That is a lot to do in the time available. To sum up, we will prepare a report for you which:

1. advises on the issues relating to the East stand, assuming a return to full capacity;
2. evaluates your thoughts on improving income and suggests other options to improve profitability, assuming a post-COVID season;
3. advises on the future of the women’s team, assuming a post-COVID season;
4. considers assurance assignments for the club’s commercial contracts; and
5. considers how you might sell your shares and realise your investment in the future.

I will get started right away.” Denise gets up and leaves you to begin your work.

### Required

- Prepare the draft report for Denise Fong; and
- Prepare an email to your ethics partner on any matters which you think relevant.

## APPENDIX 1

### Suggestions to improve income

#### Hybrid pitch

I've read about other sports clubs replacing their grass pitches with hybrid turf which is more hard wearing. The stadium pitch at Southerwood is only used for home games by the men's first team to allow the groundskeepers time to repair it between matches. I've read that a hybrid pitch could be installed at the stadium for around £700,000. Currently Southerwood must relay the grass pitch every two years at a cost of £100,000 each time.

#### Streaming games

Currently, some of our league matches are shown on UK satellite television. Southerwood has a sizeable international fan base and I wonder if we could make money from them by streaming all home games on a pay-per-view, or subscription basis, like an at-home season ticket in your house. Currently, only UK subscribers can stream matches and must be signed up to a contract with the UK satellite television provider.

## APPENDIX 2

### Examples of Contracts with Manufacturers and Distributors

#### Grassland

Grassland Ltd ('Grassland'), based in Sheffield, collects grass cuttings from the Southerwood stadium and sells the cuttings preserved in plastic cubes, like paperweights. The cubes are imprinted with the Southerwood crest. These are particularly popular with the fans. The press has been full of praise for this innovative idea for a souvenir. Grassland pays nothing for the grass cuttings and the cubes retail at £15 each.

The contract terms provide that Southerwood receives 5% of Grassland's gross margin on sales of these products. The contract commenced in May Yr 27 and to date Southerwood has received a commission cheque for £500 in June Yr 27.

#### Netlocker

Netlocker plc ('Netlocker') is a multi-national online distributor of sports kits and equipment. It is based in the Channel Islands and buys replica shirts from Southerwood's own stock at the same cost price as Southerwood pays the manufacturer; £45 including VAT. Netlocker sells the shirts at £60 including VAT, the same price as Southerwood's own stores. The contract, which has run since Yr 25, gives Southerwood 10% commission on each sale. There are no regular reports from Netlocker on volumes sold. When Netlocker needs to replenish their stock of replica shirts, a Netlocker staff member telephones Southerwood's retail store manager and they prepare the picking list and despatch documents then organise for delivery of the shirts to Netlocker. After 31 May annually, Southerwood receives an email confirming how many shirts remain in Netlocker's warehouse and commission is transferred to Southerwood. The amount received in Yr 27 is half that of Yr 26.

#### Spook Gin

Southerwood's hospitality suites serve only Spook Gin, distilled in London by Daniel's Gin Co ('Daniels'). Southerwood is contracted to take delivery of 250 cases of gin annually. In return, Daniels receives entitlement to corporate hospitality to a total value of £105,000. The difference between the annual sales value of gin sold by Southerwood and the value of hospitality used by Daniels is computed annually and either Southerwood or Daniels sends the other a payment depending on who owes whom. In the year ended 31 July Yr 27, Southerwood sold all the gin delivered but Daniels did not use all the hospitality due to COVID restrictions on professional sport from 16 March Yr 27 (all games were postponed until 24 August Yr 27).

**END OF PAPER**