Business performance

Assessment 1

Case studies

Introduction

This assessment requires you to review two separate case studies and complete a series of tasks:

- Case study 1 relates to Skite, a sports footwear retailer, and is the basis for questions in parts A and B.
- Case study 2 relates to WeConnect, a designer, manufacturer and retailer of cell phones.

You are required to submit one document, with a maximum of 1,000 words, to answer all the required tasks. The preferred format is Microsoft Word.

Case study 1

Part A

Skite is a privately owned footwear retailer that operates stores across Australia and New Zealand. The company focuses on a specialist area of the footwear industry – that is, sports footwear. The following information relates to Skite:

- All Skite shopfronts (stores) are rented.
- Before 2021, Skite was one of the market leaders across Australasia in retail sports footwear. It had invested heavily in its stores with significant capital expenditure, marketing of their locations and staff training. The current chief executive officer (CEO) was a strong advocate of this expenditure.
- The sports footwear market represents 20% of the wider footwear market across Australia and New Zealand.
- Ninety per cent of Skite's shopfronts are in the suburbs and central business districts of major cities, where foot traffic has reduced over the last three years.
- Skite established an online store servicing Australian and New Zealand customers in January 2021.
- Instore customers are asked to complete an electronic survey as they exit the store. The survey consists of three short questions that rate their experience.

Footwear retailers typically purchase a variety of footwear from wholesalers and manufacturers to on-sell to consumers. Most sell their products from one or more shopfronts, with many also selling online. Skite has two competitors that only sell footwear products (including sports footwear) online.

You are the newly appointed business advisor and Chartered Accountant for Skite. You have gathered the following key statistics and information about the footwear retailing industry for the period from 1 July 2020 to 30 June 2023.

- Sports footwear trends are reflected in the industry-wide footwear trends. Some of these trends are available in Appendix 1.
- Revenue from the sports footwear industry segment was $1,453,000,000 in 2023, $1,380,250,000 in 2022, and $1,350,500,000 in 2021.

- The online retail sales market segment (from both online-only retailers and shopfronts with online options) increased by around 20% from 30 June 2022 to 30 June 2023. Online retail contributed 25% of the footwear market during this period (Skite's online segment is also 25% of its total revenue). The shopfront retail stores remained largely static during this period across the industry.
- Strong competition from department stores has forced most footwear retailers to reduce prices. Department stores have extensively increased their footwear product ranges over the past three years.
- Skite's two online-only competitor retailers both continue to expand their operations and have taken market share away from shopfront retailers across the industry. The marketing, advertising and promotional expenditure for each of these competitors is significantly higher than the industry average.
- A noticeable trend in the last financial year (to 30 June 2023) has been that consumers aged 55 and over have become more comfortable with purchasing footwear online. Skite had directed its advertising and marketing expenses over the last two years to this age category for both the instore and the online segments.
- Purchase (product) costs have declined over the past three years as footwear retailers have increasingly sourced products directly from cheaper overseas manufacturers.
- Skite has a treasury policy requirement to hedge 90% of its foreign currency exposures. Skite incurred an overall loss from these contracts which has been reflected in the 30 June 2023 period.
- A significant fire in late-2022 affected a major city building where one of Skite's main competitors was located. This competitor was not able to trade from that location for 9 months from 1 October 2022 to 30 June 2023.

The Skite CEO recently outlined the key aspects of the company's strategic and operational direction for you. These include the following:

- Market share – obtain 10% of the sports footwear market.
- Location of stores – align stores to areas with high consumer traffic.
- Customer experience – ensure customers have a positive instore experience and rate their interaction with staff highly.
- Competitive advantage – increase staff numbers in stores to support personalised service.

Required

Your colleague in Skite's Finance team has provided you with a draft dashboard (refer to Appendix 1) of Skite's results and industry information. You review this dashboard and have concerns that it does not contain all the necessary information and is not very helpful for decision making. Write an email to the Chief Financial Officer (CFO), Sophie Wallace, to support their presentation to the CEO, addressing the following:

1. Analyse four (4) areas of significance in the results. As part of each analysis, justify why the area is significant. Two (2) areas must relate to revenue, one (1) area to cost of goods sold (COGS) and one (1) area to a specific expense category from the dashboard.
2. Develop and justify two (2) key performance indicators (KPIs) that should be included in the dashboard to support the CEO's evaluation of performance.

Part B

The annual budget preparation was initially delayed for the period 1 July 2023 – 30 June 2024. A draft budget (refer to Appendix 2) has now been prepared for the CFO, who has asked you to review it. Your notes from a recent budget meeting identified the following internal and external factors as areas that may have an influence on the draft budget:

- The total retail footwear industry forecast for growth is 3%. Growth in the online market segment is expected to be higher than the shopfront market segment.
- No change is expected in the product sales mix.
- Competition is expected to remain intense from the two competitors who are online-only providers. They are continuing to spend more than the industry averages on advertising and marketing.
- The industry has low barriers to entry for online competitors. Another major competitor is expected in this segment from December 2023, offering an online-only service.
- No change is expected in foreign exchange rates, and the trend to source cheaper products is expected to continue.
- Spending on staff training remains a high priority. The company recognises that employees need exceptional interpersonal skills to support a positive customer instore experience.
- Fifty per cent (50%) of Skite's stores will have new rental agreements which are expected to have an increase of 3% above the prevailing inflation rate.
- Inflation is expected to be 5% during the period.
- No new stores are budgeted in 2024 for Skite.

Required

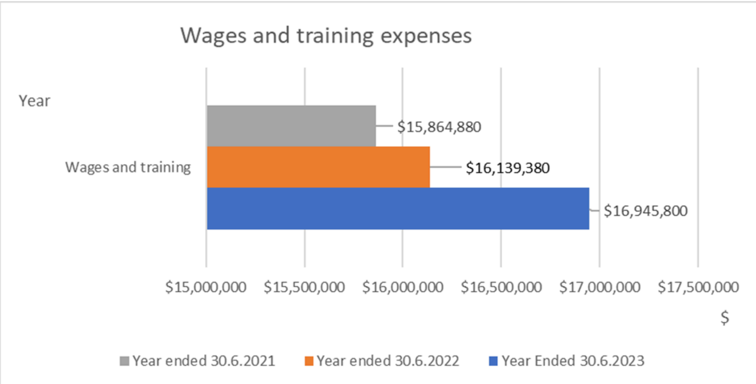
You now need to examine the draft budget for the year ended 30 June 2024 and write a report to the CFO (background information from Part A may be used for Part B).

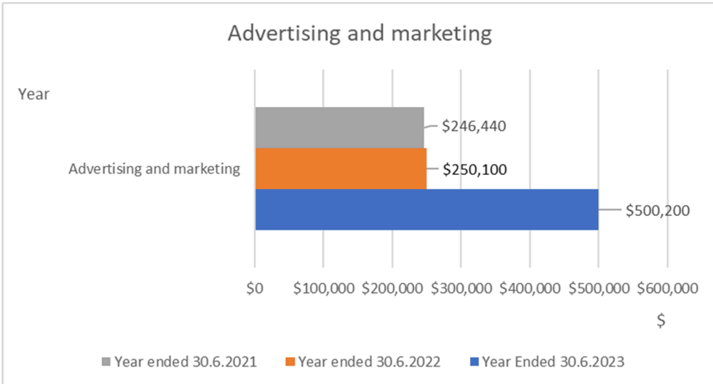
1. In your report, analyse four (4) areas of significance in the budget. As part of each analysis, justify why the area is significant. Two (2) areas must relate to revenue and two (2) areas to expense categories.
2. After receiving your report from Task 1 above, the CFO queried why an incremental budget process based on the inflation rate was not used. Evaluate the appropriateness of applying an incremental budget methodology for the budget for the year ended 30 June 2024, including four (4) justifications.

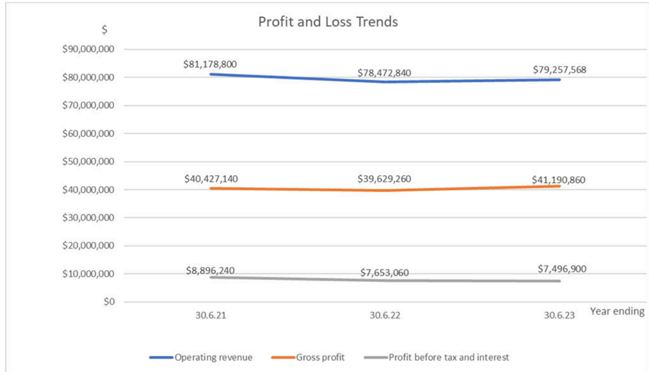
Appendix 1: Draft dashboard for Skite (AUD)

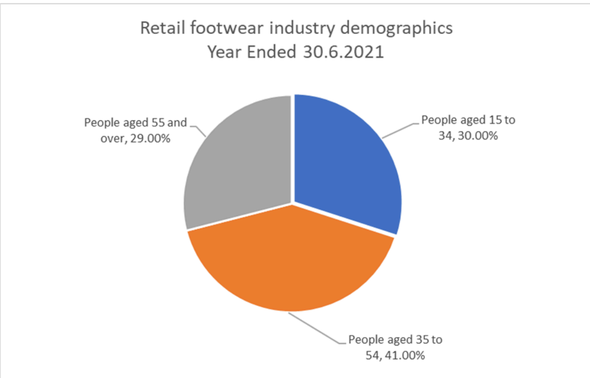
Item	Year Ended 30.6.2023	% of Revenue	% change	Year ended 30.6.2022	% of Revenue	% change	Year ended 30.6.2021	% of Revenue
	Actual		from 2022 to 2023	Actual		from 2021 to 2022	Actual	
Operating revenue	$79,257,568	100	1.0%	$78,472,840	100	(3.3%)	$81,178,800	100
Cost of goods sold	$38,066,708	48.0	2.0%	$38,843,580	49.5	4.7%	$40,751,660	50.2
Gross profit	$41,190,860	52.0	3.9%	$39,629,260	50.5	(2.0%)	$40,427,140	49.8
Operating expenses								
Wages and training	$16,945,800	21.4	(5.0%)	$16,139,380	20.6	(1.7%)	$15,864,880	19.5
Advertising and marketing	$500,200	0.6	(100.0%)	$250,100	0.3	(1.5%)	$246,440	0.3
Other operating expenses	$16,247,960	20.5	(4.2%)	$15,586,720	19.9	(1.1%)	$15,419,580	19.0
Total operating expenses	$33,693,960	42.5	(5.4%)	$31,976,200	40.7	(1.4%)	$31,530,900	38.8
Profit before tax and interest	$7,496,900	9.5	(2.0%)	$7,653,060	9.8	(14.0%)	$8,896,240	11.0

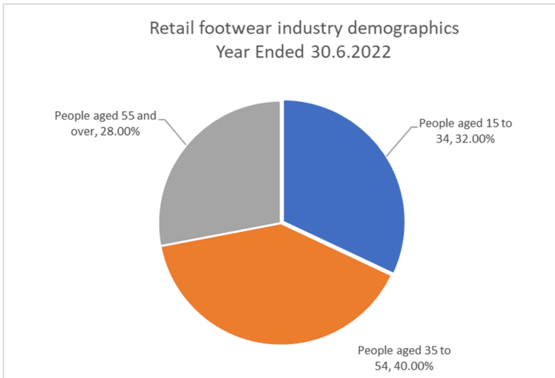
( ) = unfavourable

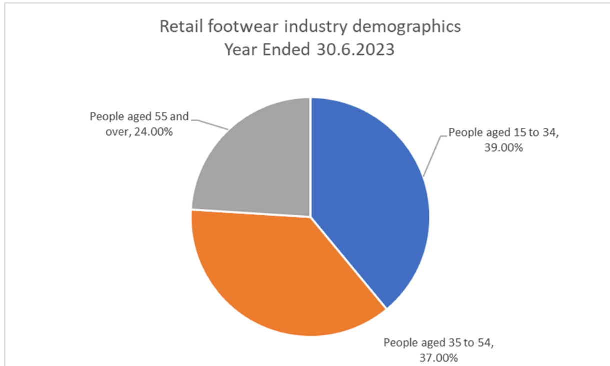












Appendix 2: Draft budget (AUD)

Item	30.06.2024 Budget	% of revenue[1]	% change from 2023 to 2024[1]	30.06.2023 Actual	% of revenue[1]
	$'000			$'000	
Operating revenue	80,050	100.0	1.0%	79,258	100.0
Cost of goods sold	37,901	47.3	0.4%	38,067	48.0
Gross profit	42,149	52.7	2.3%	41,191	52.0
Operating expenses					
Rent (stores and warehouses)	11,324	14.1	(5.0%)	10,785	13.6
Wages and training	17,454	21.8	(3.0%)	16,946	21.4
Advertising and marketing	510	0.6	(2.0%)	500	0.6
Website	610	0.8	0.0%	610	0.8
Other	5,096	6.4	(5.0%)	4,853	6.1
Total operating expenses	34,994	43.7	(3.9%)	33,694	42.5
Profit before tax and interest	7,155	8.9	(4.6)	7,497	9.5

() = unfavourable

Note1: rounded to one decimal place

Case study 2

WeConnect Ltd (WeConnect) designs, manufactures and sells high-quality cell phones that have been designed for simplicity and ease of use. WeConnect's target market, when developing its product range, was the older demographic, which tends to be less tech-savvy. A more recent trend with people in this demographic has been their willingness to upgrade their phones to the latest product offerings. The business was started four years ago by a wife-and-husband team who had noticed the difficulty their elderly parents were having using modern cell phones, which typically have too many features. The products were an instant success and are now being promoted in mainstream stores. They quickly gained a foothold despite strong and aggressive competition in the market.

WeConnect products are sold through two main channels. The first is the WeConnect website, which was also created with the elderly in mind. It has large fonts and easy-to-use menus to make interaction with the site easier. Those who purchase via the website pay immediately by credit card. The second sales channel is electronic retailers and accounts for approximately 20% of WeConnect's sales. These sales are on 20-day credit terms. The sales pattern is even throughout the year, and there is no change in any sales mix during reporting periods.

WeConnect originally targeted elderly customers by advertising on daytime television and during TV programs that this demographic typically watches. The success of the phones has meant that their largest promotional tool is now word of mouth.

Growth has not come without its challenges. Initially, cash was a key factor for survival and the business established a bank overdraft facility of $300,000. This facility remains available, but the bank has advised there is no opportunity to increase it. WeConnect also established trade credit terms with its suppliers of 50 days on average, which is longer than the industry average of 40 days. However, increasingly these suppliers have made WeConnect a low-priority customer. When there are supply issues from product shortages or shipping problems, WeConnect might have its orders delayed or only partly delivered.

A further challenge the business faces is that many of the components used to produce the phones have been outsourced to overseas suppliers since March 2022. Current global supply chain challenges have often resulted in longer lead times and shipping delays.

The Marketing Manager (MM) often reminds the senior management team to always aim for 'no lost sales due to product unavailability'. The Operations Manager (responsible for the manufacturing processes and operations) and the Procurement Manager both joined WeConnect in this last financial year and work closely with the MM.

The Chief Financial Officer (CFO) is very conscious of the need to manage the business's working capital. At the end of each financial year, WeConnect conducts a review to ensure it has sufficient funding to meet its strategic and operational objectives. The CFO provides you with the following financial information related to WeConnect's actual results for the years ended 30 June 2022 and 30 June 2023.

	Actual 30.6.2023 $'000	Actual 30.6.2022 $'000
Sales	4,652	4,089
COGS	(3,538)	(3,118)
Gross profit	1,114	971
Gross profit %	23.9%	23.7%
Cash (overdraft)	(290)	(140)
Trade debtors	50	44
Inventory	1,201	990
Trade creditors	(660)	(402)
Working capital	591	632

	Actual 30.6.2023	Actual 30.6.2022	Change
Trade debtor days	18	19	1 (5%)
Inventory days	113	86	27(31%)
Trade creditor days	52	49	3 (6%)
Net Working capital days	79	56	23(41%)

Required

As a business advisor and Chartered Accountant, the CFO has approached you to write a report.

In your report, analyse three (3) components of WeConnect's working capital days and provide an overall analysis of working capital to 30 June 2023. You need to provide a total of four (4) analysis points.

Submission instructions

You need to submit one (1) file for this assessment: a document of up to 1,000 words to cover the required tasks in both case studies (five (5) tasks in total).

The preferred format is Microsoft Word (DOC/DOCX). Other acceptable formats are ODT, RTF, WPD, TXT, PS, HWP, HTML or Google Docs via Google Drive™.