Chartered Institute of Management Accountants

CIMA

IC Optical

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Job description

You are a Financial Manager employed by IC Optical, reporting to the Senior Financial Manager and ultimately to the Finance Director. IC Optical is a company which sells glasses and contact lenses through a chain of high street opticians.

As part of your role you are involved in preparing the annual budget and in costing and pricing. You also perform other duties and prepare reports as and when required.

Company background

IC Optical was established 30 years ago by Irene Carruthers, who opened a single store in the capital city of Ceeland. The store was successful and she opened further stores. She was joined in the growing business by her husband Chris. The company expanded rapidly and now has over 760 stores in towns and cities all over Ceeland.

In 2004 the company was listed on the Ceeland stock exchange.

IC Optical is now the largest opticians in Ceeland. The company's main competitors are Newspecs, another high street chain of opticians, and Zimchem, a major high street chemists who also provide optical services.

IC Optical's head office is located in the capital city of Ceeland. The company has stores in all of Ceeland's cities and major towns, with larger centres of population having several stores. Running an optician's store requires both technical optical knowledge and retail skills, so typically each IC Optical store has a Store Manager and a Chief Optometrist.

General information about Ceeland

Ceeland's currency is the C dollar (C$). Ceeland has adopted International Financial Reporting Standards (IFRS).

Low birth rates and improving life expectancies in Ceeland mean that the proportion of older people is increasing. The population aged over 65 already outnumbers the population aged under 16. The ageing population brings challenges, including pressure on healthcare and social services.

Eye care services in Ceeland

Ceeland has a well-developed public healthcare system. The government funds medical treatment, as provided through doctors' surgeries and public hospitals, and subsidises certain types of non-critical healthcare provision, including dental and eye care services.

Every citizen in Ceeland is entitled to a free eye test once every two years. These tests are carried out by opticians such as IC Optical. The eye test involves checking the customer's vision and determining any need for correction through glasses, contact lenses or other means. The optician also carries out basic health screening tests, checking for signs of eye diseases such as glaucoma or macular degeneration.

Anyone wishing to have an eye test simply goes to the optician of his or her choice. Each of Ceeland's citizens can be identified using a unique reference number provided by the government and the optician can input that online to check that the customer is eligible for a free test. The optician carries out the examination and invoices the government. The government sets a standard rate for this test, currently C$100.

The optician carrying out the test issues the customer with a written copy of the result of the exam, called a prescription, which states the strength of lens required to correct any defect in his or her vision. The customer is free to buy whatever glasses or other products are needed from any optician.

It is recommended that the eye test is repeated every two years because the human eye changes slowly over time. Many customers' prescriptions change sufficiently for them to require a change of glasses every two years.

The prescription varies depending on the distances involved. Many patients require one pair of glasses for looking at distant objects and for driving and another pair for close work, such as reading.

More than 65% of Ceeland's population over the age of 16 wears glasses or contact lenses.

The government will pay for a basic pair of glasses for children, those aged over 65, or those on low incomes. Those who do not qualify for free glasses must pay for their own.

The market for glasses

A pair of glasses comprises two main elements: the frame and the lenses.

Frames vary significantly in price. Some are manufactured and sold as designer goods, carrying the same brands as designer clothes and accessories. Designer frames tend to be more expensive simply because of the branding. Designer frames tend not to be sold on an exclusive basis and so major chains of opticians may be in competition with one another in selling them.

Larger optician chains, including IC Optical, have their own ranges of frames made for sale through their own stores on an exclusive basis. These are generally of similar quality to the designer frames and their prices vary according to the materials used and their build quality.

Other frames are unbranded and vary in price according to quality and materials. They may be sold by smaller chains of opticians that cannot justify having their own ranges. They can be of high quality, but they may also be sold at a price point that is within the limit imposed by the government for those entitled to free glasses.

Frame manufacturers will often produce a wide array of designer, own-label and unbranded frames. The manufacturer must pay a royalty for the use of designer labels.

Glasses are often regarded as fashion accessories, with trends in the sizes and shapes of frames over time. Some customers own several pairs of glasses so that they can match the colour and style to their clothing.

Lenses are manufactured by a small number of specialist suppliers. There are three main categories:

Single vision

A single vision lens covers a specific focal length. For example, it may be suitable for looking at an object at arm's length such as reading, but not for wearing while driving.

Bifocal/trifocal

A bifocal lens has two zones, each with its own focal length. When the wearer looks straight ahead, the eye will look through the part of the lens designed for distance viewing. When the wearer looks down, the eye will look through the lower part of the lens, which is generally designed for reading. A trifocal lens has an intermediate section that it optimised for another task, such as watching television or looking at a computer screen.

Progressive

Progressive lenses have a tapered shape that changes the focal length gradually from top to bottom. The wearer adjusts by looking upward or downward until the object is in focus through the appropriate part of the lens.

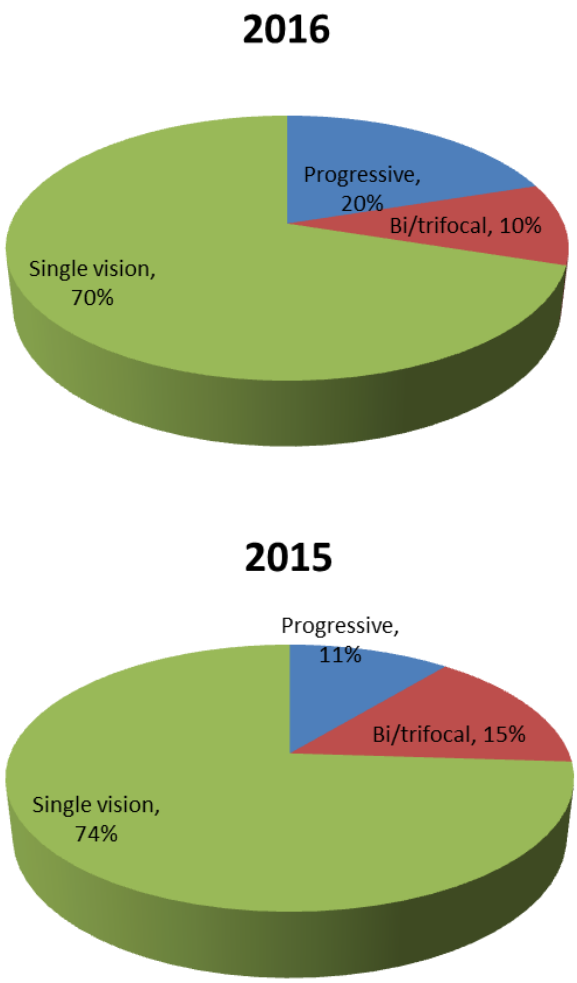
Bi/trifocal and progressive lenses avoid the need to carry different pairs of glasses for specific tasks.

Single focus lenses tend to be much cheaper because they can be mass produced. Fitting them to frames is a relatively simple matter of cutting them to the shape of the aperture,

after allowing for the shape of the customer's face and the distance between his or her pupils. Most large opticians' stores have the equipment required to cut a single focus lens to the required shape.

Bi/trifocal and progressive lenses are also mass produced in the first instance, but they must then be ground to their final shape and polished to meet the customer's specific needs. This task requires a more sophisticated laboratory, with the optician providing the necessary measurements and dimensions.

Despite the expense, progressive lenses are increasing in market share:



IC Optical has ten laboratories spread across Ceeland that prepare lenses for the company's stores. Each laboratory serves a designated geographical area. Larger stores tend to process most of their own single vision lenses, but will request support from their laboratories during busy periods. The laboratories process all bi/trifocal and progressive lenses.

The laboratories use computer-numerically-controlled (CNC) machines to grind and polish the lenses to the dimensions specified by the optician who examined the customer in the store. CNC equipment then cuts the lenses to shape based on the dimensions associated

with the frame's stock number. Each pair of lenses is then couriered to the store, where the lenses are attached to the frames by a technician or optician.

Coatings can be added to lenses to make them scratch resistant, or give them anti-reflective or ultraviolet protection. Larger stores have the means to add coatings, although these can also be applied by the laboratory, when they have been asked to prepare progressive or bi/trifocal lenses.

Alternatives to glasses

Contact lenses

These are small lenses that can be worn on the eye itself. The wearer is effectively looking through a lens, which corrects any defects in vision in exactly the same manner as a pair of glasses.

As with glasses, an optician determines the appropriate prescription. The lenses themselves are generally mass-produced and are always single focus.

Contact lenses can be permanent or disposable. Permanent lenses are designed to be worn during the day, but removed at night and soaked in a fluid that cleans and sterilises the lens, ready for the next morning. Disposable lenses are less robust, but are removed and discarded at night. The wearer must buy a supply of fresh lenses.

Laser corrective surgery

This is essentially an operation, carried out by trained doctors, to reshape the lens in the patient's eye.

Reshaping the eye effectively eliminates the defects in the customer's vision. The procedure involves making some very delicate and precise incisions in the lens within the eye. The customer requires only anaesthetic drops in the eye and no hospital stay is required.

The procedure requires special training and equipment. Some private hospitals offer this treatment; there are also specialist clinics that only offer laser eye correction.

General information about opticians

Professional body

The profession is regulated by the Ceeland Optical Council (COC).

COC has various levels of membership, some of which are relevant only to those working in hospitals as medical practitioners.

In order to practise in Ceeland, it is necessary to be registered as an optometrist with the COC. That requires a minimum of three years' study at university, followed by a period of assessed clinical training under a registered optometrist's supervision. An optometrist is qualified to offer clinical advice and also to write prescriptions for corrective lenses.

Dispensing opticians must work under the supervision of an optometrist. A dispensing optician can fit and advise on glasses and contact lenses. The COC has a separate level of membership for dispensing opticians.

Only optometrists can write prescriptions. Typically, opticians' stores employ dispensing opticians to assist optometrists. Once the prescription has been written by the optometrist, a dispensing optician will advise the customer on whether a particular frame would be suitable for the lens that has been prescribed. For example, some lenses have to be relatively thick and heavy and might require a substantial frame. The dispensing optician will also make some of the measurements required by the laboratory for cutting the lenses to size in order to ensure that the customer is looking through the correct part of the lenses when wearing the glasses.

Staffing

Smaller stores will have one optometrist, who will also act as the store manager. Larger stores may require additional optometrists, who will report to the optometrist acting as store manager.

Each store will have two or more dispensing opticians. It is necessary to have more dispensing opticians than optometrists because their work is a little more time consuming.

Most stores will also have retail assistants who will be responsible for booking customer appointments, managing inventory and invoicing the government for eye tests and any free glasses issued to qualifying customers. The number of retail assistants depends on the size of the store. In very small stores, some of this work is undertaken by dispensing opticians.

Equipment and store layout

An optician's store tends to be relatively large and capital-intensive.

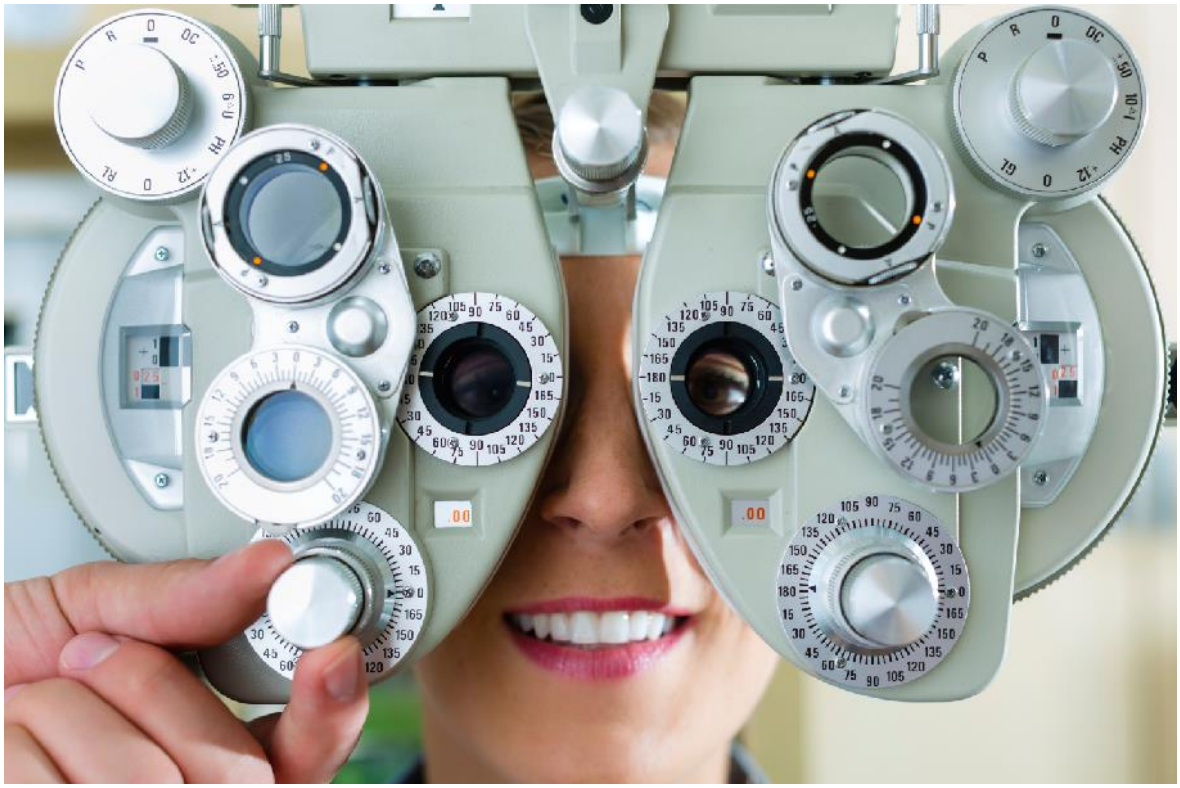
In terms of layout, there will be an examination room in which customers' eyes are examined using a variety of items of equipment.

This machinery carries out a variety of tests, including testing the fluid pressure inside the eyeball and also photographing the blood vessels and optic nerve at the back of the eye. This equipment is non-invasive and it is generally operated by a dispensing optician.

The main part of the eye examination requires a separate room that is arranged to permit customers to view eye charts through a variety of lenses.

This equipment is operated by an optometrist and is used to determine the customer's prescription.

Each optometrist will require a separate and fully-equipped room in order to work. As numbers increase, the store will require additional examination rooms for dispensing opticians in order to avoid bottlenecks.



The total cost of new equipment for a large optician's branch can be in excess of C$500,000.

The store also requires an area for the dispensing optician to discuss the results of the eye examination and to advise on the suitability of different types of glasses or contact lenses.

Finally, there has to be a fairly extensive retail area that will generally include racks on which frames can be displayed so that customers can browse.

Performance data for four IC Optical stores for the year ended 31 March 2016

	Selling price / purchase price	Capital City	Central City	Elltown	Arrtown
Revenue		C$000	C$000	C$000	C$000
Eye tests		1,118	1,118	268	179
Designer frames	667%	2,684	1,789	698	143
Budget frames	434%	1,395	2,092	293	446
Progressive lenses	346%	2,266	1,618	505	155
Bi/trifocal lenses	365%	37	372	178	59
Single vision lenses	589%	3,661	3,543	397	718
Tints and coatings	1040%	2,600	1,642	296	109
Disposable contact lenses	322%	1,216	521	208	139
Permanent contact lenses	285%	225	525	90	60
Total revenue		15,202	13,220	2,933	2,008
Costs					
Frames, lenses and coatings		(2,717)	(2,424)	(465)	(476)
Salaries - optometrists		(600)	(600)	(120)	(120)
Salaries - dispensing opticians		(585)	(585)	(130)	(130)
Salaries - retail assistants		(266)	(304)	(114)	(114)
Shop running costs – applied by head office		(2,511)	(2,318)	(628)	(628)
Total cost		(6,679)	(6,231)	(1,457)	(1,468)
Annual profit		8,523	6,989	1,476	540
Assets					
Premises at net book value		5,800	4,100	2,700	1,800
Type of premises		Freehold	Leasehold	Freehold	Leasehold
Equipment at net book value		1,900	1,600	480	390
Shop fittings		380	340	180	110

Research and development at IC Optical

IC Optical has a well-respected research and development facility. The facility is located close to the campus of the University of Central Ceeland and has strong links with the university. The university offers courses in Optometry and many of IC Optical's optometrists graduated from there. Postgraduate students from both the Optometry and Physics departments are often permitted to use the facility's equipment for their projects. Undergraduates can apply for internships.

The technical staff at have helped the university to develop a teaching module on the design of lenses.

The research and development facility aims to develop commercial applications for IC Optical, but some of the projects undertaken are unlikely to have any immediate impact. For example, there is a research team working on new plastics that might lend themselves to the manufacture of complex lenses using 3D printing, rather than the grinding and polishing of solid lenses. The team has found some interesting results, but none are likely to be applied in the near future.

IC Optical uses much of the technology developed by its research and development facility itself and sells much of the remainder to third parties. For example, a new lens design that has no relevance to optometry was patented and licensed to an electrical company for use in more efficient street lighting.

The research and development facility is currently working on two major projects. One is the development of variable lenses. These would use fluid technology to change the shape of the lens in response to a small electrical current. Glasses using these would enable their wearer to zoom in and out as needed so that they could be transformed from reading glasses to driving glasses with the flick of a switch.

The second major project involves the integration of glasses with other devices. For example, a motorist would be able to see the information from the car's main instruments while looking at the road as normal. This technology could also have military applications, although IC Optical has always been unsuccessful when it has bid for military contracts in the past.

SWOT analysis

IC Optical contracted a management consultant to conduct an overall analysis of the company 6 months ago. He produced the following SWOT analysis.

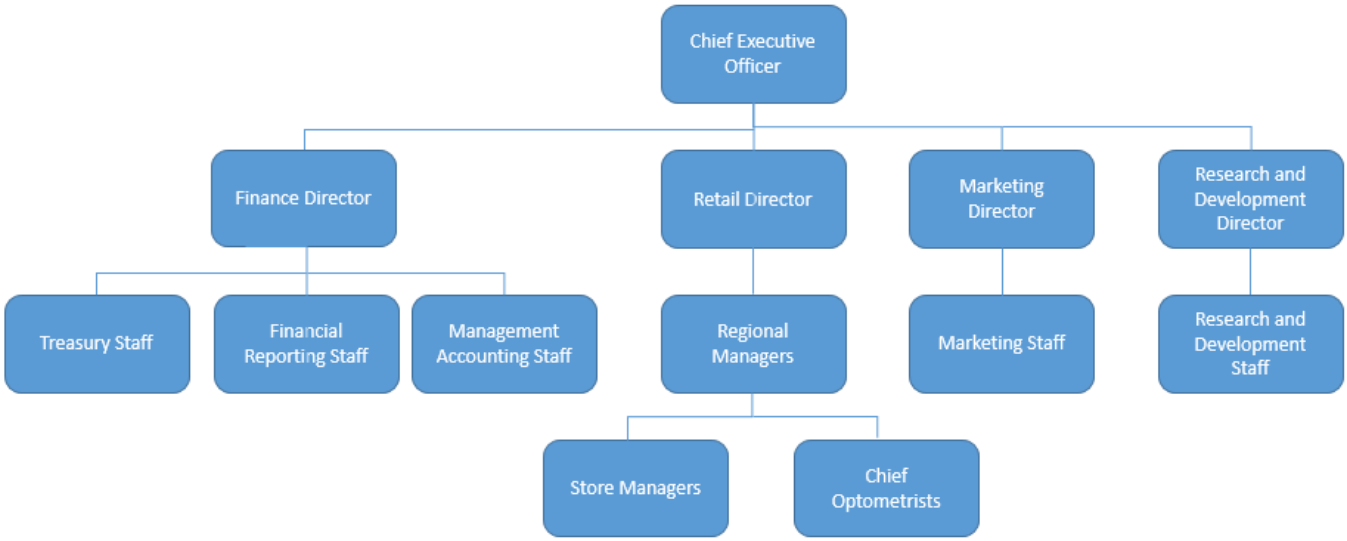
	Favourable	Unfavourable
	Strengths	**Weaknesses**
Internal	Strong well recognised brand. High level of professional expertise. Good relationships with suppliers. Cutting edge lens technology from research department. Highly experienced and qualified staff. Strong branch network.	Little brand loyalty from customers. Limited funding for expansion. Products offered are not differentiated from the offerings of competitors.
	Opportunities	**Threats**
External	Growing market for glasses. Ageing population with increasing optical needs. Government funding for some services. Potential to exploit innovations from research department.	Rapidly growing competitors. New sources of competition. Low cost substitutes such as internet suppliers. Growth of franchising models used by competitors. High cost of equipment for new branches or refurbishment of existing ones. High marketing spend by competitors.

Reporting structure

Each retail branch has a Store Manager and a Chief Optometrist. The Chief Optometrist is responsible for all technical optical issues, customer service and quality control. The Store Manager is responsible for running the store, inventory management and staffing issues.

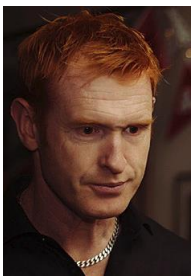
Both the Store Manager and Chief Optometrist report to the Regional Manager. There are six Regional Managers who report in turn to the Retail Director. The board is based at IC Optical's head office in Ceeland's capital city. The finance department is also based at the head office and carries out financial reporting, management accounting and treasury duties. The internal audit department is also based at the head office.

IC Optical's marketing department coordinates marketing campaigns which are run nationally, including print media adverts, television and radio and social media.



IC Optical's Board of Directors

Executive Directors



Gerry Lennon

Gerry has served as Chief Executive Officer since 2013. Gerry is a retail specialist with previous experience in senior roles with a major chain of pharmacists.

Alex Spina

Alex has been Finance Director since 2002. He is a qualified accountant. His previous experience included several years working within the Ceeland Health Service.

Joe Nandwani

Joe has served as Marketing Director since 2014. He graduated from university with a marketing degree, and then worked as a marketing executive for a major supermarket chain.

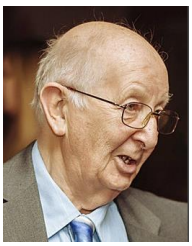
Andrei Yudin

Andrei has worked as Research and Development Director of IC Optical since 2010. He holds an honorary professorship at the University of Central Ceeland. He is well known globally for his innovative work on lens technology.

Greta Engel

Greta has held the post of Retail Director since 2011. She has worked for IC Optical since 2005, joining from a major competitor. She is a qualified optometrist, having studied at the Central University of Ceeland.

Non-Executive Directors



Chris Caruthers

Chris has served as Chairman since he retired as CEO of IC Optical. He serves on the audit and nomination committees. He founded the original company together with his late wife Irene.

Lenu Martins

Lenu has been a Non-Executive Director since 2014. She is a qualified lawyer specialising in Human Relations legislation. Ms Martins is the convener of IC Optical's nomination committee.

Justin McCafferty

Justin has been a Non-Executive Director since 2012. He is a professionally qualified accountant with a background in the retail sector. Mr McCafferty convenes IC Optical's audit committee.

Jud Zolansky

Jud has been a Non-Executive Director since 2012. He had a successful career as a frame designer for a major spectacle frame producer. Jud sits on the nomination and audit committees.

Extracts from IC Optical's financial statements

IC Optical

Consolidated statement of profit or loss for the year ended

	31 March 2016	31 March 2015
	C$ million	C$ million
Revenue	1,890	1,750
Cost of goods sold	(1,021)	(823)
Gross profit	869	927
Selling, general and administrative expenses	(227)	(245)
Profit from operations	642	682
Interest expense	(26)	(28)
Profit before tax	616	654
Tax expense	(129)	(137)
Profit for the year	487	517

IC Optical

Consolidated statement of financial position as at

		31 March 2016	31 March 2015
		C$ million	C$ million
Non-current assets			
Property, plant and equipment	[1]	1,805	1,770
Brands, trademarks and intangibles	[2]	290	260
Goodwill		48	48
Total non-current assets		2,143	2,078
Current assets			
Inventories		160	130
Trade receivables		71	52
Cash and cash equivalents		90	68
Total current assets		321	250
Total assets		2,464	2,328
Equity			
Share capital and share premium		500	500
Revaluation reserve		147	147
Retained earnings		1,106	1,042
		1,753	1,689
Non-current liabilities			
Loans		440	380
Deferred tax		10	12
		450	392
Current liabilities			
Trade payables		127	118
Tax		134	129
		261	247
Total equity and liabilities		2,464	2,328

Notes

1 Property, plant and equipment

	Property C$ million	Optometric equipment C$ million	Shop fittings C$ million	Total C$ million
Cost or valuation				
As at 31 March 2015	1,660	640	435	2,735
Additions	148	80	27	255
Disposals	(37)	(42)	(11)	(90)
As at 31 March 2016	1,771	678	451	2,900
Depreciation				
As at 31 March 2015	502	316	147	965
Charge for year	54	88	57	199
Disposals	(21)	(39)	(9)	(69)
As at 31 March 2016	535	365	195	1,095
Net book value				
As at 31 March 2016	1,236	313	256	1,805
As at 31 March 2015	1,158	324	288	1,770

The net book value of property comprises C$802m of freehold property and C$434m of leasehold.

2 Brands, trademarks and intangibles

	Brands and trademarks C$ million	Development C$ million	Total C$ million
Cost			
As at 31 March 2015	348	82	430
Additions	52	20	72
As at 31 March 2016	400	102	502
Amortisation			
As at 31 March 2015	142	28	170
Charge for year	18	24	42
As at 31 March 2016	160	52	212
Net book value			
As at 31 March 2016	240	50	290
As at 31 March 2015	206	54	260

Extracts from Newspecs' financial statements

Newspecs

Consolidated statement of profit or loss for the year ended

	31 March 2016	31 March 2015
	C$ million	C$ million
Revenue - consumer sales	900	820
Revenue - sales to franchisees	350	305
Cost of goods sold - consumer sales	(459)	(402)
Cost of goods sold - sales to franchisees	(249)	(210)
Gross profit	542	513
Selling, general and administrative expenses	(213)	(203)
Profit from operations	329	310
Interest expense	(54)	(54)
Profit before tax	275	256
Tax expense	(42)	(34)
Profit for the year	233	222

Newspecs

Consolidated statement of financial position as at

	31 March 2016	31 March 2015
	C$ million	C$ million
Non-current assets		
Property, plant and equipment	984	887
Brands, trademarks and intangibles	103	98
Goodwill	200	200
Total non-current assets	1,287	1,185
Current assets		
Inventories	113	98
Trade receivables	102	96
Cash and cash equivalents	14	23
Total current assets	229	217
Total assets	1,516	1,402
Equity		
Share capital and share premium	200	200
Revaluation reserve	167	127
Retained earnings	195	135
	562	462
Non-current liabilities		
Loans	800	800
Deferred tax	15	9
	815	809
Current liabilities		
Trade payables	98	94
Tax	41	37
	139	131
Total equity and liabilities	1,516	1,402

Press coverage

OPTICIAN MONTHLY – APRIL 2016

Seeing the future: competition in the Ceeland optical market

Optometrics, specifically the sale of glasses and contact lenses, is a growing business sector. The ageing population creates more demand because our eyesight tends to deteriorate with age.
Growing demand is attracting competition to this sector. Traditional town centre opticians have watched Newspecs's rapid expansion, stimulated by an aggressive franchising policy. Other developments include the pharmaceutical chain Zimchem's moves to add opticians' departments in its larger stores.

Newspecs has expanded from 50 branches to nearly 500 in less than five years. Admittedly, many of these new branches were operating previously as independent opticians' stores, but their ability to enjoy economies of scale in promotion and in buying has given larger competitors a fright.
Zimchem's entry to this market has been a little more measured, although they have over 100 opticians' branches and their customer base already associates them with health and personal care.

This level of competition has to be good for the customers, who have seen the prices of glasses and contact lenses falling in recent years. It remains to be seen whether it will also be good for the opticians themselves, and how established chains like IC Optical react to the new providers muscling in on their business.

OPTICIAN MONTHLY – APRIL 2016

OPTICIAN MONTHLY – MAY 2016

Let the buyer beware

Laser eye surgery has been growing in popularity in recent years, despite it being expensive to have this procedure undertaken. The medical establishment has been almost silent on this until recently, but the Ceeland Health Service has issued guidance to patients seeking laser eye surgery.

The official advice is that laser eye surgery is sufficiently safe and effective to be used routinely, but there is some risk. Patients should inform themselves of the risks and benefits before they proceed.
Patients should be aware of the following:

- The process involves the use of a laser to make some very precise incisions in the lens within the eyeball. A small incision is made in the cornea and the lens is then reshaped by making tiny incisions that change the shape of the lens.

- Laser surgery is generally suitable for the correction of most sight defects, but a clinical assessment must be carried out for each patient.

- Laser eye surgery is provided exclusively by the private sector. Clinics are regulated, but standards vary. Legally, the clinics offering laser eye treatment must employ qualified medical doctors. Patients should be careful to ensure that they will be treated by doctors who are well trained and experienced in this field. Demand for treatment has led to an influx of doctors from other specialisms, who have recently trained in laser eye surgery.

- Patients should ensure that they choose a clinic that offers an aftercare service, with post-operative check-ups. Patients should attend all check-ups.

OPTICIAN MONTHLY – MAY 2016

Delltown Gazette

20 March 2016 | No. 5290 **C$2.10**

Town Opticians Praised

Simon Cranny, Reporter

Joe Walsh was on holiday last month in Ceeland, visiting his daughter in Delltown.

He dropped his glasses and broke them at the start of his holiday and asked the local branch of IC Optical to repair them. It turned out to be a lucky break because the optician at IC Optical discovered two serious conditions that Joe had been unaware of.

Joe's eyesight was in peril because he was in the early stages of macular degeneration, a disease that can seriously impair vision. His general health was also in danger because his cholesterol levels were extremely high.

Both conditions have since responded well to treatment and Joe has heaped praise on Ceeland's opticians. He had recently had an eye test in his own country and his underlying health problems were not detected.

Newspecs advertisment

An unrepeatable opportunity for qualified opticians!

Newspecs are coming to towns in Ceeland soon to promote our franchising plans. There has never been a more exciting time to start up your own Newspecs franchise.

- Trade under one of the best known respected brands in Ceeland.
- Run your own business, but with the strength of a large established business behind you.
- Use the Newspecs powerful marketing and branding.
- Access our best-in-class training for your team.

Pay us a fee and keep all your own profits, which means you work as hard as you want to and retain the benefits. An upfront sum, plus an annual franchise fee, and you could be on your way to owning your own business.

Come to one of our evening seminars to find out more: email m.mootz@newspecs.co.cl for more details.

Store budgeting and control

IC Optical has a sophisticated electronic point of sales system that tracks revenues in real time.

The optometrist in charge of each store has a series of targets that are set by head office. A typical store's annual budget is shown below:

Revenue	C$
Eye tests	223,700
Designer frames	447,352
Budget frames	348,684
Progressive lenses	323,684
Bi/trifocal lenses	148,684
Single vision lenses	472,368
Tints and coatings	273,684
Disposable contact lenses	173,684
Permanent contact lenses	75,000
	2,486,840

Costs	C$
Frames - designer	67,105
Frames - budget	80,263
Lenses - progressive	93,421
Lenses - bi/trifocal	40,789
Lenses - single vision	80,263
Tints	26,316
Disposable contact lenses	53,947
Permanent contact lenses	26,316
Salaries - optometrists	142,105
Salaries - dispensing opticians	140,789
Salaries - retail assistants	107,895
Store running costs	482,895
	1,342,104

Store running costs are set centrally and include depreciation.

The costs of lenses comprise the cost of the basic lens, plus all laboratory charges.

Tints are generally applied in the store by dispensing opticians. They are applied by spraying or immersing the lenses before they are fitted into the frame.

Store running costs include depreciation of equipment, depreciation of the property or lease costs, heating and lighting and other costs and charges. They are generally not at the discretion of the optometrist in charge of the store.