

Chartered Institute of
Management Accountants

CIMA



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Job description

You are the Financial Manager based in Pizzatime's Head Office in I-land. You report to the Finance Director.

You are responsible for overseeing the management accounting function for Pizzatime and preparing the group budget. You are also responsible for overseeing the regional Financial Managers to ensure that regional budgets are maintained and adhered to.

You also assist the Finance Director in drawing up costs and advising on pricing for impromptu projects, as required.

Company background

Pizzatime operates a chain of pizza restaurants. At the last financial reporting date, 31 December 2015, there were 970 restaurants, of these 900 were located in I-land, Pizzatime's home country, 69 in P-land and a single restaurant in a country further away, C-land.

Pizzatime was founded in 1969 by two brothers. They started the business by opening a single pizza restaurant in I-land, hiring premises on a short-term let. The restaurant was an instant success. It quickly became known in the local area for its excellent quality and fast and friendly service. A year later, encouraged by their success, the brothers set up a second restaurant in a neighbouring town in I-land, this time purchasing an existing pizza restaurant outright and rebranding it as a Pizzatime restaurant. Since then, the company has continued to expand, by leasing new premises, acquiring failing restaurant businesses and franchising.

By 31 December 2015, the company was well established in both I-land and P-land. It had also begun to explore the possibility of further expansion by opening (in 2014) a single restaurant in C-land to test the market in a quite different part of the world.

Business model

Pizzatime's menu includes a wide choice of pizzas and complementary products such as dough balls, salads, desserts and beverages.

Dough is prepared in a central processing plant located in I-land. Some of the ingredients for the dough are imported and others are available locally. Dough is prepared and partially baked and then frozen in single pizza portions. The frozen dough is transported to individual restaurants using a fleet of trucks organised by Pizzatime's logistics unit.

The restaurant managers are responsible for placing an order for dough each week for delivery the following week. They also arrange for sufficient dough to be thawed out in refrigerated storage for use each day.

For each new customer order, the kitchen staff will knead the dough and then roll it out into a pizza shape. They then add toppings to the pizza, before baking it in the pizza oven.

The restaurants order the ingredients required for pizza toppings and other menu items directly from local suppliers, from an approved supplier list provided by Head Office. Restaurants replenish an item each time the amount held falls below a pre-determined optimal re-order point, calculated using the Economic Order Quantity (EOQ) model. A 'first-in, first-out' system is applied to ensure that older items are used in food preparation before newer ones, due to them being perishable.

The other main supplies are centrally sourced packaging and equipment. Packaging is distributed with the weekly delivery of dough; equipment is delivered directly to the restaurant by the manufacturer.

The current business model is to locate restaurants in places that have lots of passing trade: shopping malls, town centres, airport departure food courts and motorway service areas. Customers are generally shopping or travelling and wish to sit down and enjoy a pizza and a soft drink. They can ask for a pizza to be boxed, so that they can take it home or eat it elsewhere, but this only accounts for a tiny percentage of sales.

Franchises

Approximately 50% of Pizzatime-branded restaurants are owned and operated by Pizzatime and the other 50% are operated by franchisees. This franchise model has helped support growth in operations, because no capital outlay is required from Pizzatime to open a new restaurant that is set up as a franchise.

Pizzatime leases suitable premises and then sub-lets these to franchisees on a rolling ten-year basis as operating leases.

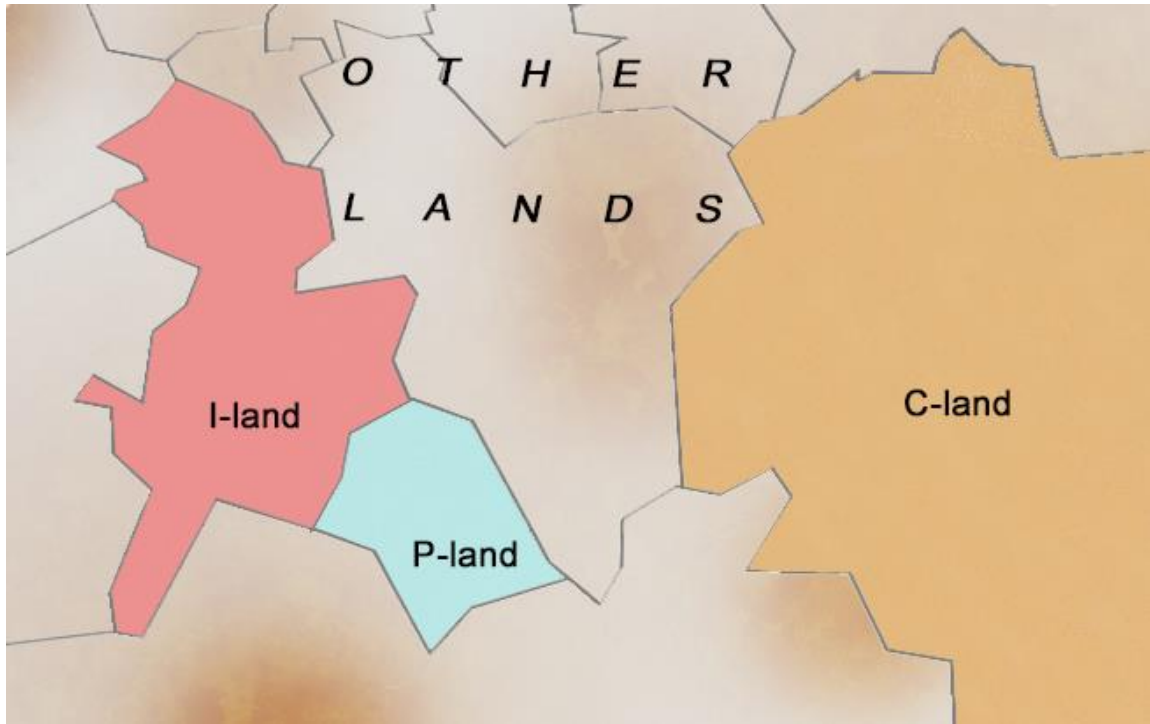
Pizzatime earns revenue from franchisees in the form of:

- a margin on central purchases of dough, packaging and equipment
- royalty income based on a percentage of total turnover
- an up-front franchise fee received at the start of each ten-year franchise period.

There is a very thorough selection process for prospective franchisees. An ongoing programme of monitoring and supervision of the franchise restaurants protects the brand and ensures that high standards of food safety, customer service and decor are maintained.

Market position

Pizzatime currently operates in three distinct markets, located in each of three countries: I-land (where it was founded), P-land (a neighbouring country) and C-land (further away). These countries use currencies I\$, P\$ and C\$ respectively.



I-land

In the I-land pizza restaurant market, Pizzatime is the dominant chain. I-land is an established market and the directors are continually looking for new ways of keeping the brand 'fresh' and appealing to the younger generation in the face of increasingly stiff competition.

There is an increasing number of self-employed people running small businesses in I-land and the growth in this market sector is much greater than for the economy as a whole.

P-land

Pizzatime is also well established in P-land, although not to the same extent as in I-land. P-land is a less developed country; even so, the regional manager is continually looking for opportunities to open new restaurants and grow the business towards its aim of becoming the dominant pizza chain in P-land.

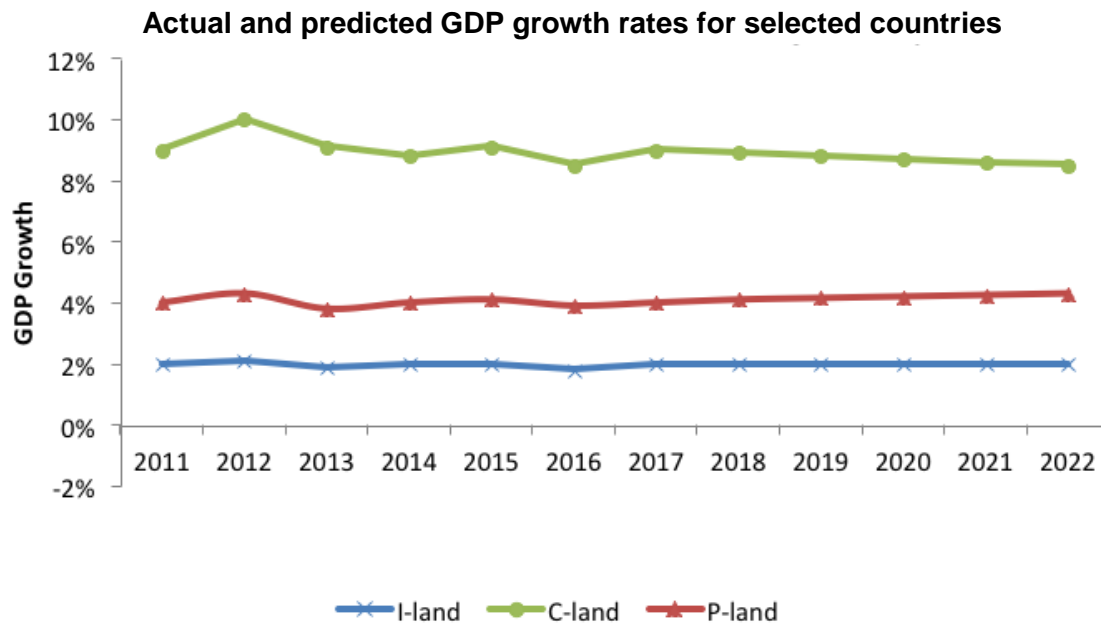
C-land

The latest addition to the Pizzatime group is a single restaurant opened in C-land in 2014 in order to test the potential for wider global development.

C-land is one of the world's fastest growing economies and offers massive growth opportunities for Pizzatime. The local population has a great interest in, and appetite for, fast food, including pizza. Although C-land is a considerable distance away from I-land, there are good transport links between the two countries.

C-land's GDP growth has outstripped that of both I-land and P-land and is showing little sign of slowing down.

The following graph shows comparative actual and predicted GDP growth levels in the three countries in which Pizzatime operates: C-Land is expected to remain one of the world's fastest-growing economies.

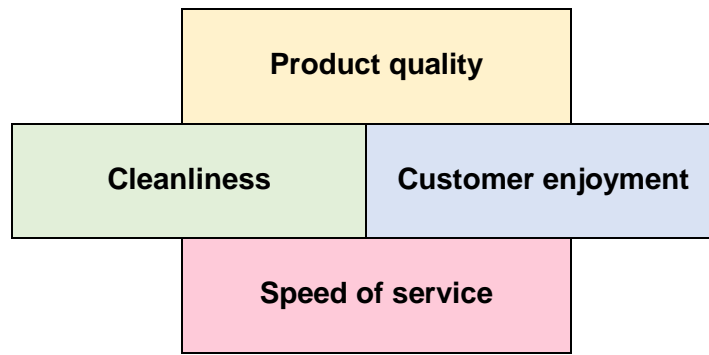


Brand analysis

Consistent branding is applied across all restaurants to enhance brand recognition. Every restaurant uses standard signage and decor and the Pizzatime logo is displayed prominently throughout.

Customer satisfaction is very important to Pizzatime. All restaurants are expected to meet specified levels of customer satisfaction and are required to display the slogan 'Happy time, it's Pizzatime!' in a prominent position.

Pizzatime has recently rolled out a programme called PCCS (product quality, cleanliness, customer enjoyment and speed of service) to educate and motivate staff to improve and monitor levels of customer service.



The company's corporate social responsibility record is also important in supporting the brand, especially in relation to:

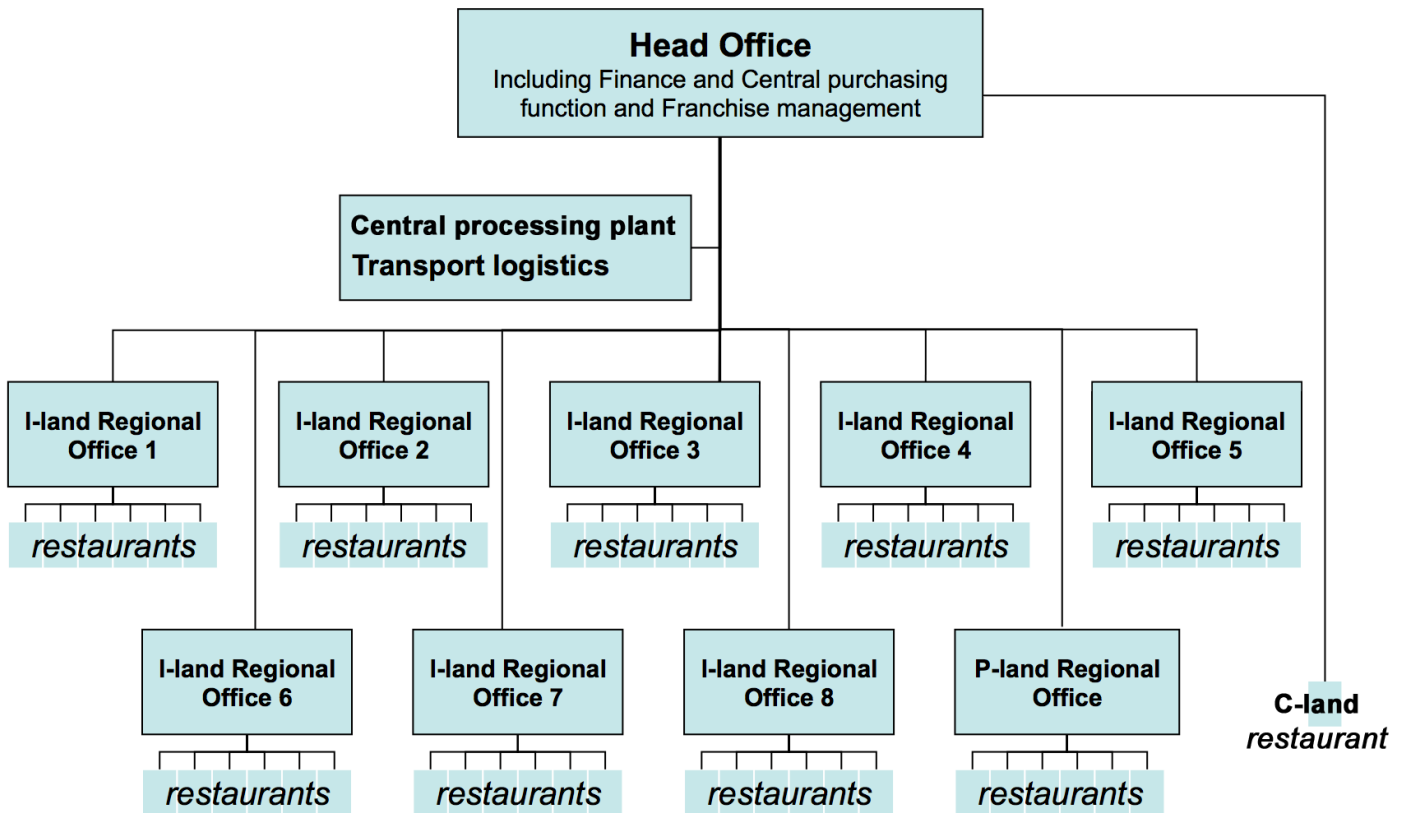
- investing in people
- caring for the environment
- community engagement.

Customers are drawn from a broad range of ages and social groups. Families with young children are particularly well looked-after. The restaurants provide light, attractive eating environments, simple seating and tableware that is suitable for families with young children. All restaurants have highchairs for infants.

Organisational structure

Pizzatime has a de-centralised regional organisational structure. This is illustrated in the following diagram.

Global structure



Extracts from Pizzatime's financial statements

Group statement of profit or loss



	31 December 2015 I\$ million	31 December 2014 I\$ million
Revenue	597	569
Cost of goods sold	(154)	(141)
Gross profit	443	428
Administration and distribution costs	(308)	(300)
Operating profit	135	128
Finance expense	(8)	(7)
Profit before taxation	127	121
Tax expense	(37)	(35)
Profit for the year	90	86
Earnings per share (I\$)	2.00	1.91

Group statement of financial position



	31 December 2015 I\$ million	31 December 2014 I\$ million
<u>Non-current assets</u>		
Intangible assets	52	52
Property, plant and equipment	309	296
Other non-current assets	4	4
	365	352
<u>Current assets</u>		
Inventory	15	15
Trade and other receivables	30	28
Cash and cash equivalents	40	50
Other current assets	7	7
	92	100
TOTAL ASSETS	457	452
<u>Equity</u>		
Share capital and share premium	80	80
Currency translation reserve	(3)	0
Retained earnings	120	122
	197	202
<u>Non-current liabilities</u>		
	155	150
<u>Current liabilities</u>		
	105	100
	260	250
TOTAL EQUITY/LIABILITIES	457	452

Notes on the extracts from the financial statements

1. Accounting policies

Pizzatime complies with IFRS.

2. Revenue

Revenue comprises retail sales from company-owned restaurants, royalties and sales of dough, packaging and equipment to franchises.

Revenue also includes the franchise fee recognised during the year. Franchisees pay a fee covering a ten-year period upon joining Pizzatime. A further fee is paid at the conclusion of that period, covering a further ten-year period. These fees are included as deferred income under current and non-current liabilities as appropriate until they can be released to revenue.

3. Intangible assets

Intangible assets include goodwill in relation to the acquisition of existing restaurant businesses.

Chairman's statement

This has been a good year for Pizzatime. We continue to show growth in revenue, despite difficult trading conditions. We have also maintained our top position in our home market.

In 2015, total revenue grew by an average of 5% on 2014 figures. This was below our target of 10% but is still an excellent result in view of the slower-than-expected recovery in consumer confidence since the widespread economic recession of 2008-2011.

We are constantly looking for new and innovative ways of enhancing the strength of the brand and improving customer satisfaction. Competition is tougher than ever in today's environment. Shopping malls now have the highest density of restaurant chains in their history and so our customers are faced with a huge choice of restaurants. We need to be constantly vigilant to stay ahead of the competition. We continually monitor competitor prices and adjust both prices and products to ensure that we can meet the changing needs of our customers in each locality. Our decentralised organisational structure is proving to be a great advantage as it allows regional managers to quickly respond to local market conditions.

Pizzatime is leading the way in promoting healthy eating. In 2015 alone we successfully introduced low salt and low sugar items into our menus and listed calories for at least a quarter of the products.

Our fantastic employees are fully behind the move towards healthy living. Each member of staff has been issued with a pedometer and we have launched a competitive motivational programme to encourage staff to become more active.

I wish to thank every member of my dedicated team for contributing so much to the success of Pizzatime in 2015.

I am confident that we have the right people and the right strategies to make great progress in the coming year and I look forward, with great anticipation, to the new opportunities that 2016 will bring.

Strategic objectives

Pizzatime is attempting to remain competitive by looking for new and innovative ways to improve customer loyalty and attract new customers. The Board is also fully aware of the need to reward investors through increased earnings and dividends.

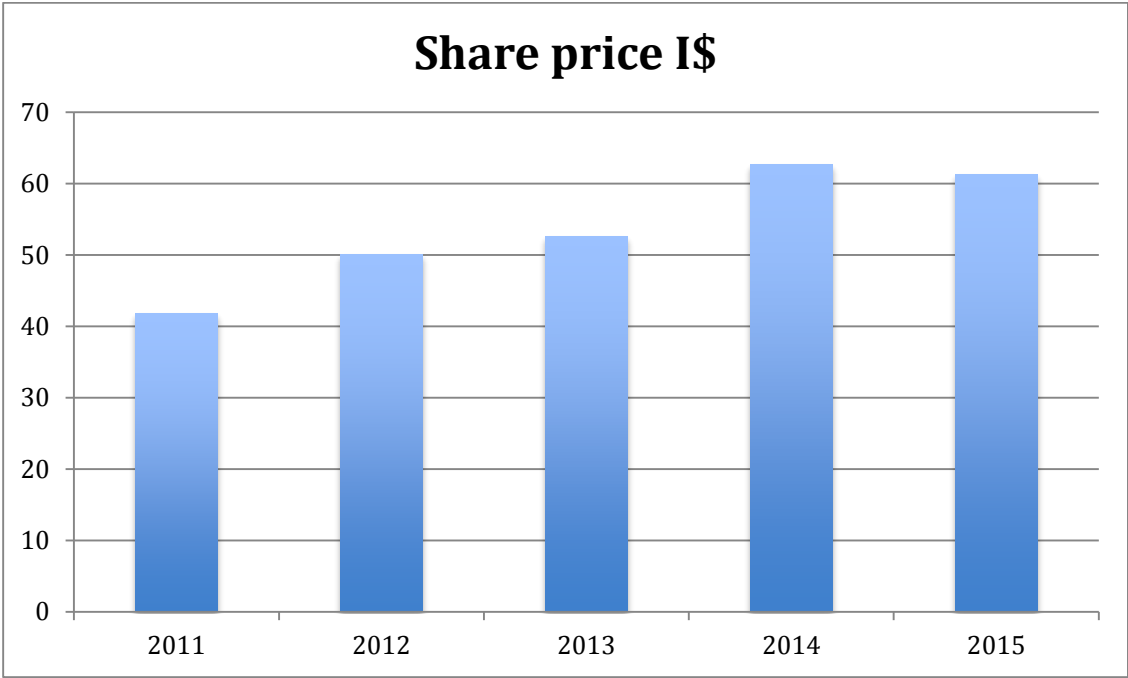
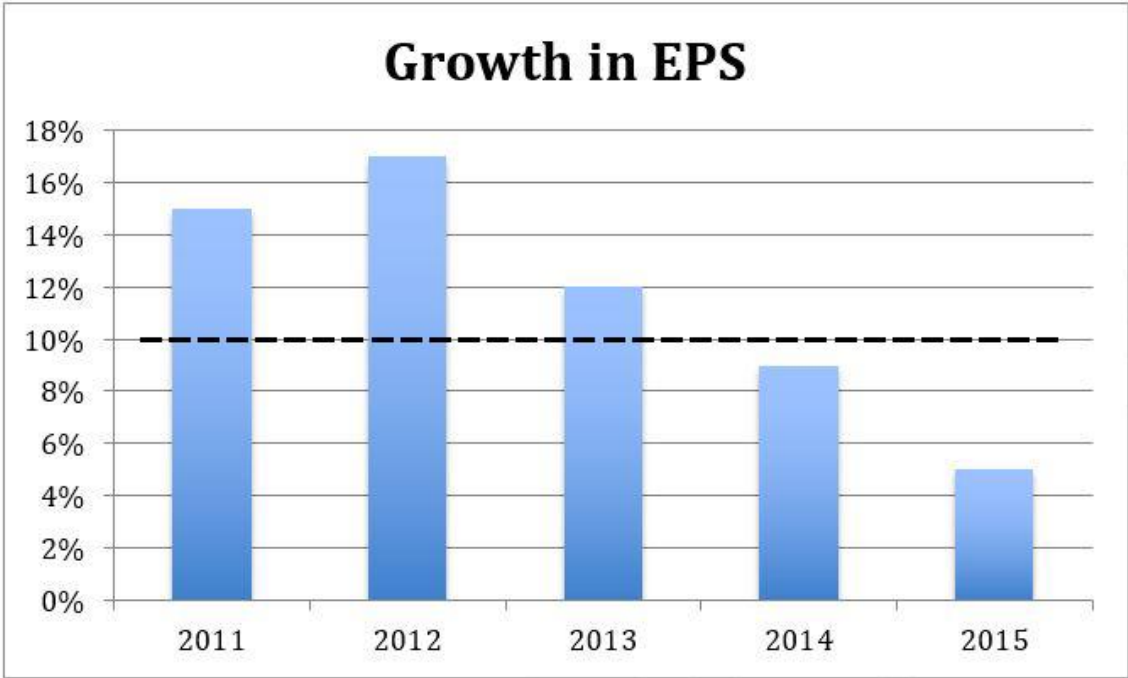
The Board published the following overarching objectives in the 2015 group financial statements:

- To increase shareholder value through the efficient use of resources, strong growth and high returns on capital, with a target of 10% annual growth in total revenue.
- To expand the number of restaurants, global coverage and improve the returns generated by existing restaurants.
- To support growth and market position by adapting to changing customer requirements, strong marketing and superlative customer service.

List of directors

Chairman	Edward Grange
Chief Executive	Monica Lall
Finance Director	Matt Spot
Marketing Director	Bilal Mukherjee
Operations Director	Dennis Chan
Human Resources Director	Helga Schmidt
Non-executive Directors	Maya Lee Donald Bruce

Share price and EPS history



SWOT analysis

The senior management team produced the following analysis at a recent strategic development 'away day'.

Strengths	Weaknesses
<p>Strong, established brand. Reputation for quality products. Strong, experienced management team. Franchise model supports growth.</p>	<p>Declining performance in established markets. Low investment in research and development. Locked into long leases. Falling growth in earnings per share.</p>
Opportunities	Threats
<p>Strong C-land interest in I-land food. Expansion in fast growing C-land economy. Update products. Takeovers.</p>	<p>Competition in saturated markets. Lower cost competitors and importers. Price wars. Maturing product offerings. Investors may lose confidence in the group. Currency fluctuations.</p>

Costing information

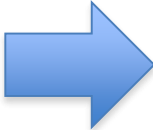
A recent exercise carried out by a regional manager showed the following average results for her region for a typical company-owned restaurant serving 50,000 meals per year.

Restaurant data	Per restaurant	Per customer
	I\$'000	I\$
Sales revenue	1,010	20.2
Cost of goods sold:		
Dough	70	
Other food items	<u>213</u>	
	<u>283</u>	5.7
Administration and distribution costs		
Employee costs	297	
Lease rentals and other premises costs	200	
Central overhead allocation	<u>90</u>	
	<u>587</u>	11.7
Profit before interest and taxation	<u>140</u>	<u>2.8</u>

Corporate social responsibility report

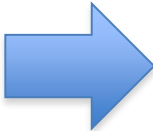
Progress in 2015

FOOD



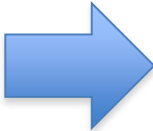
Salt and sugar content have been lowered. Low calorie products have been introduced and a calorie count provided.

PEOPLE



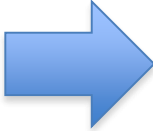
Employee training increased. Walking challenge introduced to improve fitness and health of employees.

COMMUNITY



Customers encouraged to add 5% to the bill to donate to World Food Programmes. Paid staff leave given for volunteer work on charity projects which benefit the local community.

ENVIRONMENT



Supplier audits introduced to check supplier compliance with environmental targets on water use, energy efficiency and recycling. Packaging reduced.

Press coverage

The move to reduce salt and sugar content has been well received in the press:

FAST FOOD NEWS – FEBRUARY 2016

Pizza has just become healthier!

Popular fast food chain Pizzatime has been showing everyone the way forward again.

It was a leading light of the food industry when it enabled its international restaurants to adapt menus and working methods to match local customer preferences.

Now it is taking its famous pizza-based menus one step further, by lowering the salt and sugar content in many of its menu items.

Executives had assured us that the famous Pizzatime taste would not suffer and the pizzas we sampled this week certainly lived up to that promise.

A healthy move by Pizzatime!

FAST FOOD NEWS – FEBRUARY 2016

Competitive environment

Competition comes from many sources, including:

- other pizza chains or independent restaurants
- other 'fast food' chains such as burger restaurants or speciality cuisine from countries such as Mexico and Japan
- delivery-only pizza chains (with counter or on-line ordering and no seating).

Other types of fast food are considered to be 'substitutes'. That is, consumers wishing to access the convenience of the fast-food market will choose between selecting a pizza restaurant, a burger restaurant or another type of restaurant that is offering rapid service at a reasonable price.

Delivery-only pizza chain Pizza2Go is considered to be one of Pizzatime's main competitors in all three countries.

Key competitor information

Pizza2Go has a different model from Pizzatime as it does not provide any seating, it only offers a delivery service. Another major difference is that Pizza2Go is built exclusively on a franchise model.

Pizza2Go is seen as a key competitor to Pizzatime. Although it does not compete directly with Pizzatime in the 'eat in' market, it has a very similar customer base and is therefore in direct competition with Pizzatime for some customer groups. Indeed, Pizzatime managers have noticed a significant loss of customers each time Pizza2Go opens an outlet in the same neighbourhood as an existing Pizzatime restaurant.

Pizza2Go is already well established in C-land, ahead of Pizzatime. It also has a significant presence in both I-land and P-land.

Extract from group statement of profit or loss

	31 December 2015 I\$ million	31 December 2014 I\$ million
Revenue	440	400
Cost of goods sold	(275)	(240)
Gross profit	165	160
Administration and distribution costs	(85)	(100)
Operating profit	80	60
Finance expense	(3)	(3)
Profit before taxation	77	57
Taxation	(22)	(15)
Profit for the year	55	42

Pizza2Go

Extract from group statement of financial position

Pizza2Go

	31 December 2015 I\$ million	31 December 2014 I\$ million
<u>Non-current assets</u>		
Intangible assets	15	15
Property, plant and equipment	82	82
Other non-current assets	30	37
	<hr/> 127	<hr/> 134
<u>Current assets</u>		
Inventory	7	7
Trade and other receivables	50	50
Cash and cash equivalents	48	45
Other current assets	3	7
	<hr/> 108	<hr/> 109
TOTAL ASSETS	<hr/> 235	<hr/> 243
<u>Equity</u>		
Called up share capital	20	20
Share premium account	17	17
Currency translation reserve	0	0
Other reserve	0	4
Retained earnings	65	53
	<hr/> 102	<hr/> 94
<u>Non-current liabilities</u>		
Borrowings	15	47
Provisions and deferred income	5	15
	<hr/> 20	<hr/> 62
<u>Current liabilities</u>		
Trade and other payables	75	57
Borrowings	22	20
Current tax liabilities	8	5
Other current liabilities	8	5
	<hr/> 113	<hr/> 87
TOTAL EQUITY/LIABILITIES	<hr/> 235	<hr/> 243