

Chartered Institute of
Management Accountants

CIMA



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Job description

You are a Financial Manager employed by BES. You report to the Finance Director of the BES Group.

You are responsible for overseeing BES' management accounting function, preparing the group budget and supervising the regional finance managers.

You also assist the Finance Director on special projects, as and when required.

BES Group background and business model

The BES Group operates a chain of value retail stores in country E, its home country. The group is listed here and its financial statements are prepared in accordance with IFRS. BES reports in E\$.

BES was established in 1995 when the founders opened their first store in a large town in country E. The company expanded rapidly, acquiring existing value store businesses for conversion into BES stores and leasing retail sites.

The company was listed via an initial public offering in 2012.

By the end of 2016, BES had 240 retail stores, including five trial stores that were opened in 2016 in neighbouring country X.

Pricing

BES sells its products at a retail price of E\$1. This has proved to be extremely attractive to shoppers, who perceive BES as providing value for money. (The average worker in country E earns approximately E\$7.50 per hour.) This simple structure has other advantages: shoppers know how much everything in the store costs, store staff need not spend time checking prices in response to customer queries or updating pricing on shelves, and checkout times at tills are faster.

Traditional retailers claim that their business is not affected by BES, but some supermarkets have introduced their own E\$1 fixed price ranges in direct competition with BES.

Products

The average BES store has around 2,000 products, made up as follows:

	Products
Third-party branded	700
Unbranded	900
BES own-brand	400
	2,000

Third-party branded products carry familiar brand names that are known to customers. They are generally sold by a variety of different retailers, all of whom are effectively in direct competition for sales of those products.

Unbranded goods do not carry a recognisable brand name, although they may show a manufacturer's logo. For example, a stationery manufacturer may produce pens and notebooks for sale to retailers. They may be sold by several retailers. Unbranded goods are generally cheaper because shoppers do not have the reassurance of a brand name to signify good quality.

Own-brand goods are manufactured and packaged specifically for BES. They carry the BES logo and are sold exclusively through their stores. They are often perceived to be of better quality than unbranded items because they carry BES's name.

BES' dominant strategy is that most products are sold as individual items or packages of items at the E\$1 price point.

Some items are sold in multiples. For example, some branded drinks are sold as four cans for E\$1, with those products being sold strictly in multiples of four.

BES stocks a wide range of goods, including food, household items, stationery products and even clothing. Many customers enter BES stores in order to buy a specific branded item and impulse-buy one or more own-brand products because of their low prices. Others will browse in a BES store 'just in case' it stocks what they require, such as a suitable screwdriver for a household repair.

Suppliers

BES has a policy of sourcing no more than 5% of products, by value, from any one supplier. It always buys in large quantities in order to obtain bulk discounts.

Suppliers' branded and unbranded goods are purchased directly from their manufacturers. The margins are often higher on unbranded goods because their manufacturers have narrower markets. Branded goods may be bought by traditional retailers such as supermarkets, whereas demand for unbranded items is often restricted to low-cost retailers such as BES.

Own-brand goods are made to BES' specification and can be purchased in bulk at very low prices because manufacturers will usually receive repeat orders. BES can also design products with an eye to cost. For example, many standard notebooks have 80 sheets of paper, but BES own-brand notebooks only have 75 sheets, in order to reduce their price slightly.

Own-brand goods often have a higher margin than either branded or unbranded goods.

Distribution

BES has two large distribution centres, one in the north and one in the south of country E. Incoming deliveries from suppliers are broken down and organised for delivery to individual stores using a fleet of trucks owned by BES.

Retail

There are other retailers serving the single price point (SPP) value retail market, but BES is the largest. It has the greatest number of stores and offers the widest range of products in this retail sector.

Turnover of products is continuously monitored in order to identify changing shopping habits and to adjust the range of products offered. New product lines are added every week to maintain customers' interest in the product range and to adapt to seasonal

demands. New products are carefully selected to ensure that there is something to catch the eye of every socio-demographic group of customer.

Looking to the future

BES is continually looking for new opportunities to expand, both by optimising the use of current stores and by opening new stores at home or abroad. It is hoped that the trial stores in country X will be the start of a move to expand abroad.

At present, BES has no intention to sell online.

Market position

BES operates in the value retail sector as a single price point (SPP) retailer.

The value retail sector comprises four main types of retailers:

<p>SPP retailers</p>	<p>SPP retailers offer all of their products at a single price. BES is an SPP retailer because everything sold in its stores is priced at E\$1.</p> <p>Some SPP retailers are very small. For example, Special Store has 12 stores in the south of country E and Mini Store operates just three stores in the south-east of the country and one store in the west.</p> <p>Other SPP retailers, such as BES' biggest competitor VES, have nationwide coverage.</p>
<p>Limited assortment discounters (LADs)</p>	<p>LADs are essentially traditional retailers, such as supermarkets, who offer a limited range of goods at a single price point of, say, E\$1, in order to win business away from SPP retailers. Typically, these retailers will have a single aisle set aside for a range of goods that sell for E\$1.</p> <p>These aisles tend to consist largely of LAD own brands, but they also sell some branded items.</p> <p>Single price point sales tend to account for only a small proportion of total revenues of LADs.</p>
<p>Value general merchandising (VGM)</p>	<p>VGMs are retailers that operate in the value retail market but are not constrained by an E\$1 price point. Typically, they operate from much larger stores than BES and stock a wider selection of merchandise.</p>
<p>Specialist value (SV) retailers</p>	<p>SV retailers specialise in narrow range of product categories, such as beauty products. They aim to undercut other retailers who sell similar products. They would not have a single price point.</p> <p>They typically operate out of very small retail spaces.</p>

Brand analysis

BES commissioned a survey of customer buying habits and brand attribute analysis.

When asked to describe the importance of possible reasons for purchasing goods at a value retailer, they responded as follows:

Possible reasons for shopping at a value retailer	Percentage of survey participants who classified reason as either 'very important' or 'important'
a) Affordability	87%
b) Range of products	62%
c) Location	31%
d) Shopping experience	12%
e) The simple offer	8%
f) Retailer's reputation	4%

BES faces tough competition from a wide range of other retailers, not just those operating in the value retail sector. The nature of the business model makes it difficult to offer a comprehensive range of products. For example, BES sells tinned foods, but cannot offer a sufficient range of goods for customers to buy their entire weekly food shop.

However, many customers have become increasingly price-conscious and are prepared to visit a number of stores each week to pick up the best buys from each rather than purchase their entire weekly shop from, say, a single supermarket. Customers visit value retailers more often than they did in the past and prefer to buy as many essential grocery items as possible, before visiting supermarkets to complete their weekly shop.

BES has customers from all socio-demographic groups, although its customer base is largely drawn from lower-income households.

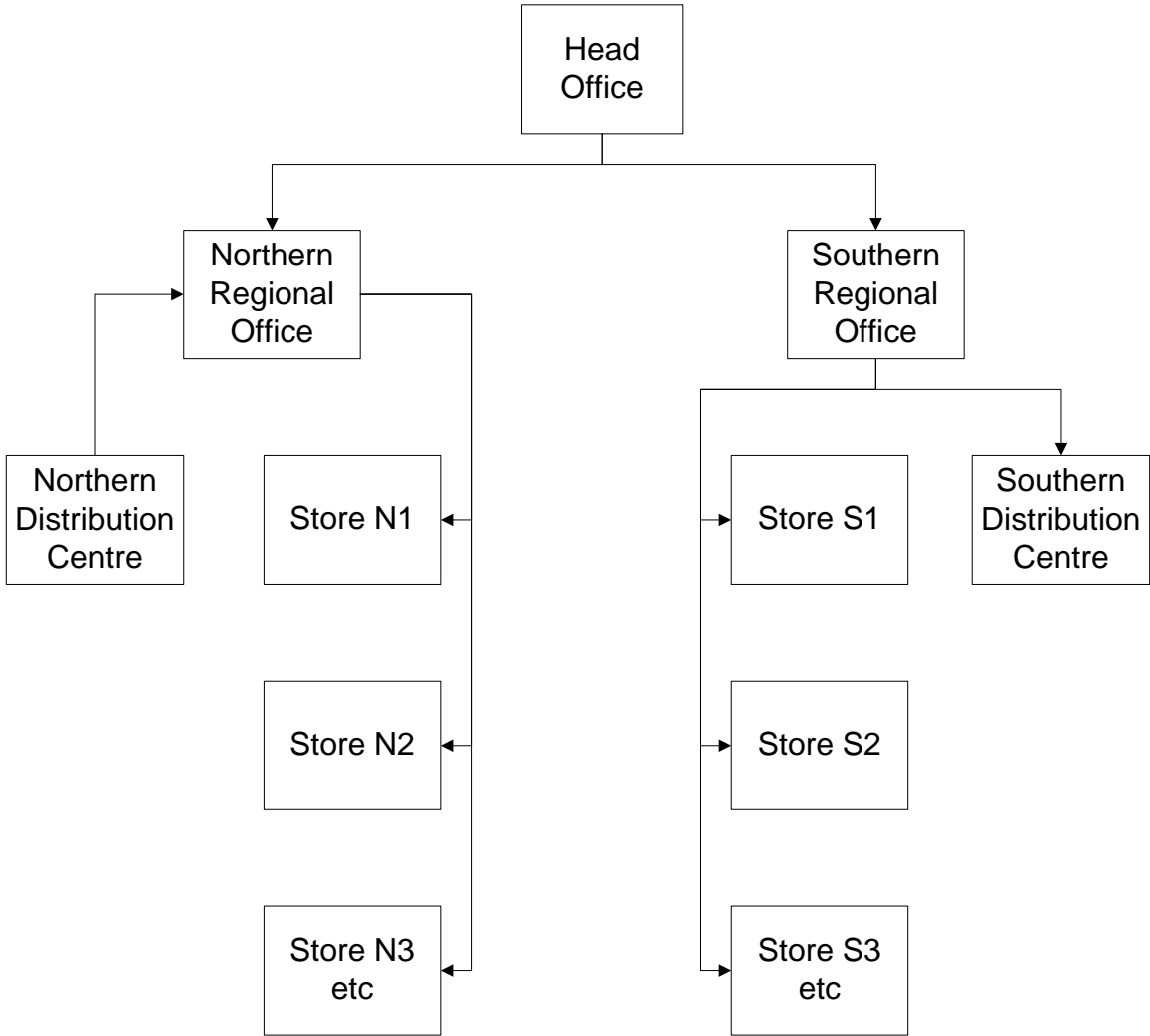
Strengths

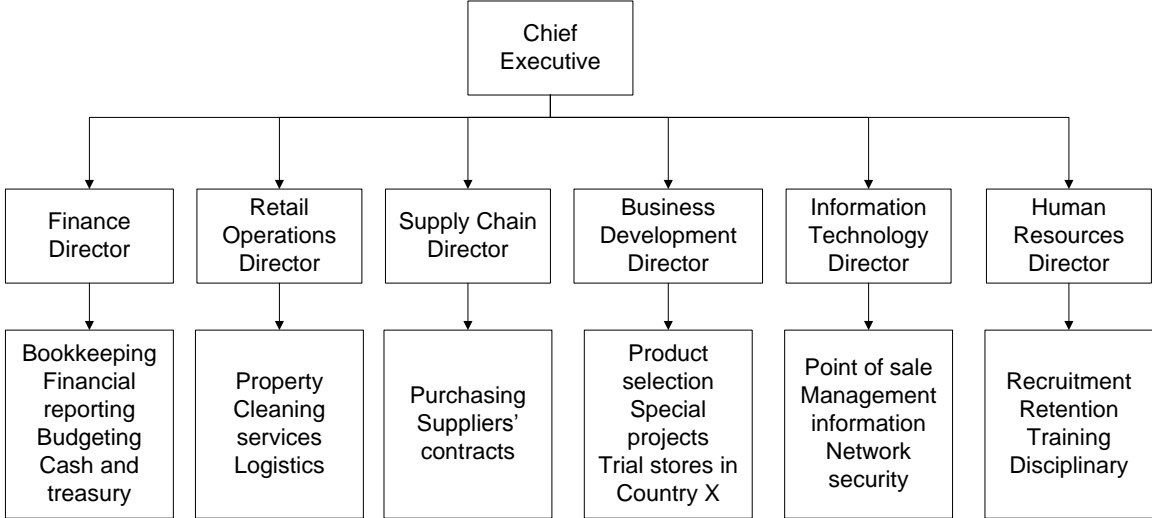
The strengths of the BES brand are:

- a visible presence in most town centres.
- a well-known and respected brand name.
- continuing growth in the value retail sector.
- the fact that discount shopping is an increasing part of habitual shopping across all income groups.

Organisational structure

BES is organised on a regional basis with a single head office and two distribution centres, one in the north and the other in the south of the country. Each distribution centre supplies the stores in its region. There is a regional office to supervise the operations of each of the distribution centres and associated stores.





News reports

The Daily News

The E\$1 pair of spectacles



Just when you thought that BES had reached the limits of their low-cost discount model, they have surpassed themselves by selling a range of E\$1 reading spectacles.

The new range is sold without any advice or support. Customers choose their desired lens strength through trial and error.

A spokesman for BES stressed that customers who were concerned about their eyesight should seek the advice of a professional optician, but argued that many customers simply needed a basic pair of spectacles to help with reading.

The new range is suitable only for close work such as reading and operating a computer. BES does not wish to risk motorists and other users buying unsuitable spectacles for distance vision.

The Daily News

Police called to store opening



BES was condemned by a senior police officer after a publicity stunt resulted in a near riot.

BES was opening a new store and had

announced a few opening day ‘special buys’, including a television, a smartphone and a variety of other high-value goods. The gimmick being that, of course, these would be sold at BES’ standard selling price of E\$1.

Customers started to queue outside the shop several hours before it opened. Chaos ensued as soon as the doors opened, with customers fighting over the single television set.

The store manager was forced to call the police in order to restore order. The local police chief issued a statement confirming that officers had been despatched to the store to deal with a disturbance. She went on to criticise BES for its irresponsible behaviour.

A spokesman for BES issued a formal apology and stated that the company would not offer such promotions ever again. The company would focus on its continuing mission to attract customers with low prices and high quality goods.

The Daily News

Doctors and dentists feel the pinch

Discount stores used to be associated with the poorly paid and unemployed. They sold a range of cut-price goods at prices that compensated for the inconvenience of having to visit a supermarket afterwards in order to complete the weekly shop.

Recent surveys of shopping habits revealed that discount stores are attracting increasing numbers of professional people as customers. This is partly attributed to

ongoing concerns about the economy.

Our reporter talked to customers at his local BES store and was surprised to find a dentist buying household cleaning items and a doctor buying cosmetics. Both were happy to admit that they had been reluctant to shop at the store when it first opened, but were now of the opinion that the savings to be had from buying goods for E\$1 were too attractive to miss.

Extracts from BES' financial statements

BES Group consolidated statement of profit or loss		
For the year ended 31 December	2016	2015
	E\$m	E\$m
Revenue	444.6	399.2
Cost of sales	(279.5)	(251.6)
Gross profit	165.1	147.6
Distribution costs	(82.8)	(75.7)
Administrative expenses	(14.5)	(12.6)
Operating profit	67.8	59.3
Finance costs	(13.8)	(12.9)
Profit before tax	54.0	46.4
Income tax expense	(11.9)	(10.7)
Profit for the year	42.1	35.7

BES Group consolidated statement of financial position

As at 31 December	2016	2015
	E\$m	E\$m
<u>Non-current assets</u>		
Intangible assets	73.0	73.5
Property, plant and equipment	384.0	358.6
	<u>457.0</u>	<u>432.1</u>
<u>Current assets</u>		
Inventory	13.8	11.7
Trade and other receivables	10.3	10.0
Cash and cash equivalents	11.4	10.5
	<u>35.5</u>	<u>32.2</u>
TOTAL ASSETS	<u><u>492.5</u></u>	<u><u>464.3</u></u>
<u>Equity</u>		
Share capital and share premium	100.0	100.0
Retained earnings and other reserves	160.3	150.8
	<u>260.3</u>	<u>250.8</u>
<u>Non-current liabilities</u>		
	172.8	161.4
<u>Current liabilities</u>		
	59.4	52.1
	<u>232.2</u>	<u>213.5</u>
TOTAL EQUITY AND LIABILITIES	<u><u>492.5</u></u>	<u><u>464.3</u></u>

Notes on the extracts from BES' financial statements

1. Accounting policies

BES complies with IFRS.

2. Foreign currency

Transactions in foreign currency are translated into E\$ at the exchange rate ruling at the date of transaction. Foreign exchange differences arising on translation of foreign currency balances at the reporting date are recognised in the statement of profit or loss.

3. Intangible assets

Expenditure on internally generated goodwill and brands is recognised in the statement of profit or loss as an expense as incurred.

Other intangible assets that are acquired by BES are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to the income statement on a straight-line basis based on the following useful lives:

Brand	20 years
Trademarks	5 years
Software	3 years

BES' goal, values and strategic objectives

Our goal

At BES, we aim to put a smile on the faces of our customers by offering the very best value and an exciting range of affordable products.

Our values

1. Put customers first.
2. Ensure the highest levels of integrity and honesty at all times.
3. Listen to each other and respect others' ideas.
4. Recognise and reward success at both an individual and team level.

Our strategic objectives

1. Grow market share in the value retail market by building a reputation for delivering fantastic value and an attractive product range.
2. Enhance growth by opening new stores each year and providing an attractive choice of product lines at best prices in existing stores.
3. Continue expansion in country X and look for other new locations.

Chairman's statement

I am pleased to report that 2016 has seen new record sales and profit figures. BES now has 240 stores.

It has been a challenging year in many ways, with continual economic pressures, but this has helped grow the business as more and more shoppers take advantage of the discount prices available at BES. Indeed, there is growth in the value retail sector as a whole and shopping for bargains is increasingly part of the habitual shopping pattern in our country.

The average price of a shopping basket of goods grew 3.6% to E\$4.70 during 2016 and weekly customer numbers grew by 8%. We are delighted that one of our own-brand make-up ranges, Beauty, was highly acclaimed and given the top recommendation by major newspapers.

In January 2016, we opened our first five trial stores in country X. We are continually looking for new growth opportunities and a trial allows us to test the value chain model in a new country without committing huge investment up front. The results are encouraging so far but we need more data and in-depth analysis of customer attitudes and market opportunities to fine-tune the country X product offerings before we can be sufficiently confident of success to justify rolling out additional store openings in country X.

In the coming year, we intend to pursue growth by continuing to open new stores and increase sales of popular seasonal items.

We are also considering relocating and modernising the two distribution centres to allow for more rapid deployment of merchandise to our stores around the country.

Many of the products that we buy are priced by their suppliers in US dollars (USD). The E\$ is presently weak in comparison to USD and so our purchases are relatively expensive. However, we will continue to look for low-cost suppliers and work hard to negotiate good deals for our valued customers without compromising product quality.

In summary, 2016 has been a good year of growth and consolidation. Growth in sales, basket value and customer loyalty all lay solid foundations for future growth.

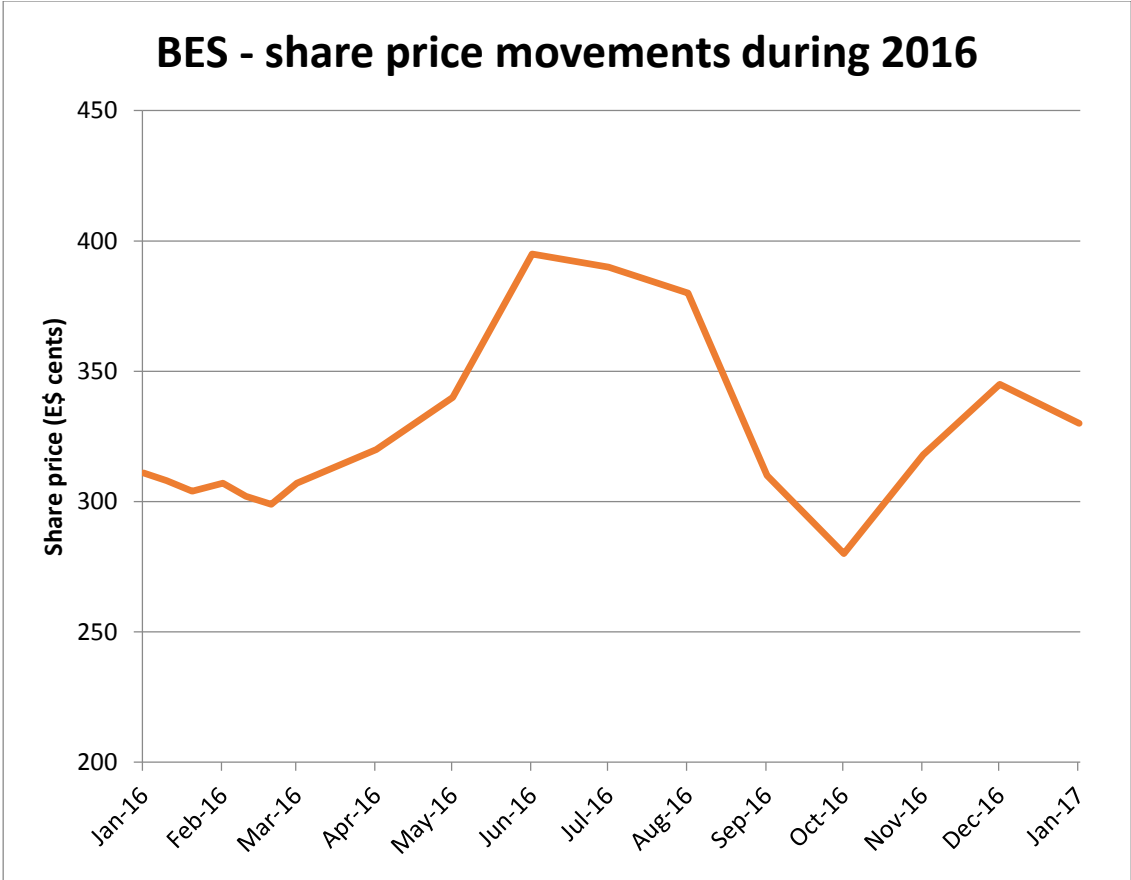
James Kotter

Chairman

Directors

Director	
Independent Non-Executive Chairman	James Kotter
Chief Executive	Mark Adams
Finance Director	Maria Isabella
Retail Operations Director	Barbara Lim
Supply Chain Director	Gil Morton
Business Development Director	Peter Vitesse
Information Technology Director	Sarah Masters
Human Resources Director	Gary Tiong
Company Secretary and General Counsel	Gordon Vine
Non-Executive Directors	Michelle Petit Armstrong Inyangete Teresa Tait Vijay Unni

Share price

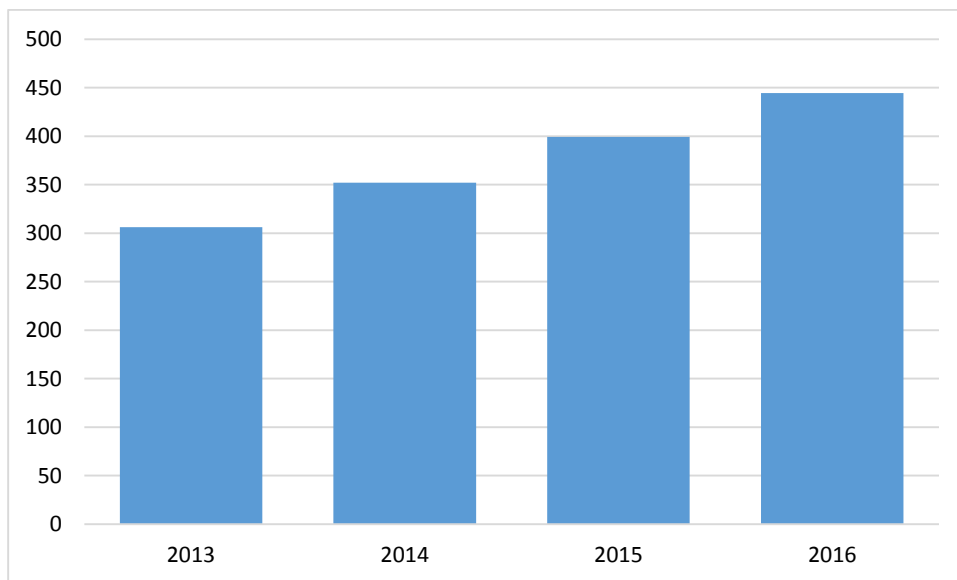


Historical growth in store numbers, revenue and profitability

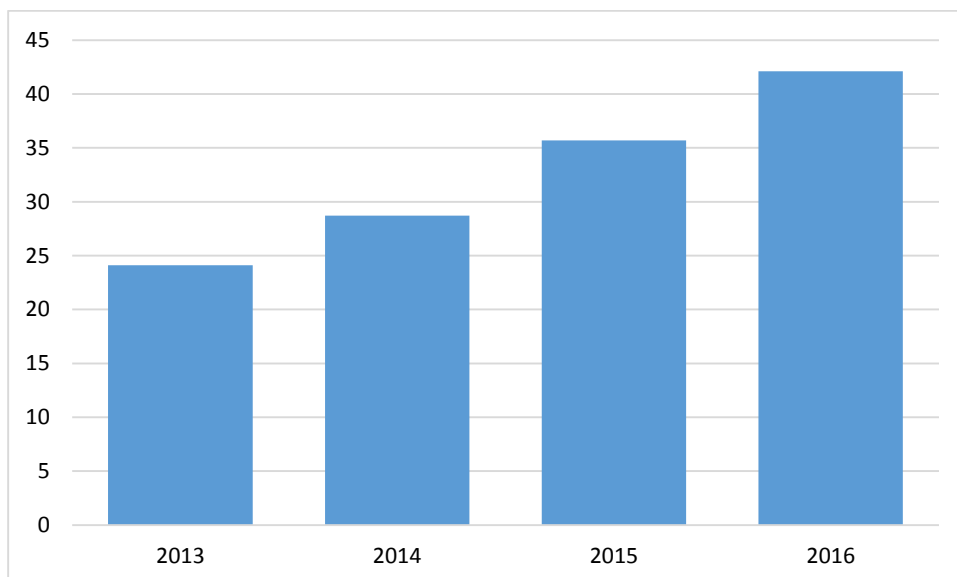
Summary of growth in the past 4 years

	2013	2014	2015	2016
Number of stores	156	183	207	240
Revenue (E\$ millions)	306.2	352.2	399.2	444.6
Gross margin	36.9%	36.7%	37.0%	37.1%
Profit for the year (E\$ millions)	24.1	28.7	35.7	42.1

Revenue (E\$m)



Profit for the year (E\$m)



Costing information

The 2016 budget for a typical store was as follows:

Revenue	E\$
Branded goods	741,000
Unbranded goods	787,313
Own brand goods	324,187
	<hr/>
	1,852,500
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Costs	E\$
Branded goods	533,520
Unbranded goods	462,486
Own brand goods	168,577
Shop wages	216,000
Shop running costs	150,000
	<hr/>
	1,530,583
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Ethics statement

Ethics and conduct policy

BES is committed to applying high ethical standards in conducting trade and expects all employees to adopt similarly high standards in their everyday conduct and in dealings with suppliers, customers and fellow employees.

Ethical procurement

The company has signed up to the Retail Trade Ethical Code of Conduct and requires all employees to be aware of and apply the provisions of the code in full in all procurement and other trade agreements.

Prevention of fraud

All employees should be on the lookout for any indications of fraudulent activity within the company and report any suspicions, whether or not there is any concrete evidence, to your line manager or the company nominated fraud prevention officer.

Anti-bribery measures

The company does not permit the payment of bribes under any circumstances. Employees and their immediate family, or any other contact, are not permitted to accept gifts or entertainment that could be considered by others to have the potential to influence procurement or other business decisions.

Gifts and offers of entertainment, which could be construed as bribes, given as an inducement in order to make a gain, should be declined and reported immediately to your line manager.

Risk factors

Key risk factors identified by the directors are as follows:

1. BES operates in a highly competitive retail sector.
2. The fixed price point policy may lead to erosion of profits when costs increase.
3. It may prove difficult to expand because of a lack of suitable sites for new stores or because of objections that low-price retailers damage the livelihoods of existing retailers.
4. The company is exposed to economic factors that might affect consumers' disposable incomes or operating costs, such as increases in oil prices affecting logistical costs.
5. The BES brand may be harmed by product safety issues.
6. BES is highly dependent on its IT systems to ensure the smooth running of store point of sale systems, product distribution and cash management.

Disciplinary code

A fair, objective and professional approach should be applied at every stage of the process. Issues should not be prejudged, but the manager taking responsibility for acting on a complaint, or suspicion of misconduct, should keep an open mind and retain objectivity throughout the process.

Disciplinary actions can range from informal measures that do not involve any further sanctions, such as verbal reprimands, through to more serious responses, up to and including dismissal. Managers should take the greatest care to ensure that any disciplinary actions are proportionate and that all relevant records are kept.

The detailed provisions of BES' disciplinary code can be discussed with Human Resources.

Main competitor information - VES

VES is BES' main competitor. It was founded in 2005.

VES' stores tend to be slightly smaller than BES'. They achieved a lower sales density of around E\$300 per square metre, as compared to E\$400 per square metre for BES in 2016.

VES also has a policy of only stocking third-party branded products, unlike BES which stocks a large number of own-branded products.

The majority of VES' stores are located in the north of country E, although it has begun opening some new stores in the south and west of the country in recent years.

Approximately half of VES' stores are located in town centres and the rest are located in retail parks and shopping malls. This differs from BES, which has 90% of its stores in town centres.

Both VES and BES are classified as large SPP retailers. However, VES offers most of its products for 99 cents, but also sells some products at lower prices. This has been useful where VES has opened a new store in opposition to a nearby BES store. Typically, the VES store will sell the products that are being promoted in BES' window displays for 49 cents for the first week of trading in order to lure customers away from BES.

VES uses the fact that it undercuts BES by 1 cent in its promotions, although customers do not view this as a significant factor when choosing where to shop.

Extracts from VES' financial statements

VES Group consolidated statement of profit or loss

For the year ended 31 December	2016	2015
	E\$m	E\$m
Revenue	148.2	136.6
Cost of sales	(116.3)	(108.3)
Gross profit	<u>31.9</u>	<u>28.3</u>
Distribution costs	(20.7)	(16.5)
Administrative expenses	<u>(6.1)</u>	<u>(4.3)</u>
Operating profit	5.1	7.5
Finance costs	<u>(2.8)</u>	<u>(2.4)</u>
Profit before tax	2.3	5.1
Income tax expense	<u>(0.5)</u>	<u>(1.2)</u>
Profit for the year	<u>1.8</u>	<u>3.9</u>

VES Group consolidated statement of financial position

As at 31 December

2016 **2015**
E\$m **E\$m**

Non-current assets

Property, plant and equipment	77.1	73.2
	<u>77.1</u>	<u>73.2</u>

Current assets

Inventory	7.3	7.4
Trade and other receivables	4.8	4.1
Cash and cash equivalents	0.2	0.2
	<u>12.3</u>	<u>11.7</u>

TOTAL ASSETS

	<u>89.4</u>	<u>84.9</u>
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Equity

Share capital and share premium	30.0	30.0
Retained earnings and other reserves	4.3	3.5
	<u>34.3</u>	<u>33.5</u>

Non-current liabilities

	34.7	29.9
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Current liabilities

	20.4	21.5
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	<u>55.1</u>	<u>51.4</u>
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TOTAL EQUITY AND LIABILITIES

	<u>89.4</u>	<u>84.9</u>
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