Case Study - HW plc

[Note: the company in this case study is fictitious but is loosely based on ideas drawn from real companies that operate in the consumer services and general retailers market – known as homeware]

Brief introduction to HW plc

The HW Company was established in the UK by the Crabtree family in 1867. It is now a global company operating in 28 countries and listed on several stock exchanges. The headquarters are based in London. The business developed into manufacturing clothes, and later diversified, via both horizontal and vertical integration, into household goods. The company would now be classed as selling 'homeware', which is a label that loosely describes the wide range of goods that can be found in the home. It is a highly competitive market and HW plc would consider its competitors to include companies such as the UK based John Lewis, H & M, Supergroup plc, House of Frazer; US based JC Penney and Sears; Olgivy in Canada; Zalando SE and IKEA in Europe, Cuccina and Fei Space in China; Weylandts in South Africa; Papaya in Australia; and many others around the world. HW plc sells goods through its retail stores and online. The company has a variety of different brands under which it manufactures and sells its own products, but the company also stocks and sells well-known brands from other manufacturers.

The company sells products and services under the headings of: Home and Garden, Interior Design, Clothing, Electricals and Financial Services. HW plc operates across six continents: Europe, Africa, North-America, South-America, Asia, and Australia.

The group company is managed by a board of directors consisting of an independent chairman, nine executive directors and seven nonexecutive directors (see appendix D). Underneath the main board there are six subsidiary companies, each representing a continent (for example, HW Africa) and each having its own board of directors (see appendix C). Also within each continent subsidiary a separate country subsidiary company is established (for example, HW Kenya) with its local board of directors which is responsible for managing the business within each country. This creates a large cascading hierarchy of companies representing every country in which HW operates. The overall strategy and policy is set by the main board of directors based at the head office in London, but each 'local' [country] board of directors has a reasonable amount of autonomy to operate within certain guidelines. This allows for a speedy local response to be made to market conditions and competitor actions, but ensures that the overall strategy is controlled. HW's main board of directors view this as a form of parental control.

Business Environment

The business environment and market conditions that HW plc operates in is highly competitive and very challenging. The sector is dominated by large players in all of the major markets around the world, many of them operating globally, or at least having a presence in most major markets. This means that the large companies enjoy economies of scale and are able to gain competitive advantage from offering breadth and depth within their product range. It is a very diverse market place and, due to the broad range of products, HW plc finds itself competing not just against similar companies, but also more specialist companies such as specialist clothing retailers, as well as furniture and furnishings retailers, electrical goods retailers, and financial services providers.

One way in which HW plc has attempted to reduce the impact of the competition is to focus on a clear strategy of convenience and customer value. HW plc provides good quality products for reasonable and competitive prices. It offers a five year guarantee on most of its products as standard, which is designed to reinforce the reliability of the products in the mind of the customer. HW plc is also very careful about its supply chain management and imposes strict quality checks on its suppliers. As part of its supply chain management strategy HW plc operate a form of 'open book' accounting in which suppliers are guaranteed an agreed share of the margin on the products sold through HW plc. This is in line with its ethical trading policy in that smaller and more vulnerable suppliers are protected from the buying power that can be exerted by larger retailers. Whilst this might seem to be a mistake by HW plc, in that it does not seek to exploit or take advantage of potential buyer power to increase profits or keep prices artificially low, it does have benefits in that small companies, who often have a high quality brand image, are willing to supply HW plc with their product range – in some cases with product lines made exclusively for HW plc. This benefits the HW plc brand, but does present some strategic challenges for the board of directors when operating globally over a very diverse product portfolio.

In recent years, following the financial crisis, the board of directors have battled with rising costs of production in its manufacturing units, and services and utility costs more generally, in both manufacturing units and retail stores. In a competitive consumer market it is becoming more difficult to pass these costs on to customers, and very careful negotiations with suppliers have had to take place in order to contain cost increases.

One of the biggest threats to the growth of HW plc is competitor activity. Attempting to maintain a competitive edge in all six continents is extremely difficult, especially when some competitors in some parts of the world are prepared to operate in a less than ethical manner. The protection of brand image and copyright issues has been an issue in some markets, not to mention issues of bribery and corruption. The political stability in some regions has also affected parts of the business from time to time, and in some instances the board of directors has had to suspend supply arrangements of certain product lines due to disruption of the supply chain. Managing the foreign exchange fluctuations presents the usual issues of financial management. The company uses financial instruments such as forward contracts, options and futures in the foreign exchange money market to manage the foreign exchange risk, but the finance department are strictly forbidden to speculate on the markets, and are only permitted to use financial instruments for the purpose of risk management.

Governments' policies have also affected the company in different ways. The USA is currently adopting a slightly more protectionist policy and the obvious issue of BREXIT is creating uncertainty in the European market. Employment policies and issues such as the minimum wage and labour laws differ around the world, which creates issues for the fair and equitable management of human resources within the company. The board of directors has been very conscious of human rights and has a stated policy of not working with companies that are suspected of exploiting labour, but aspiring to be a global company makes it difficult to refuse to trade in countries with poor human rights records. The board of directors authorised over 100 ethical audits during the year on its suppliers around the world. The board of directors has adopted a policy of clearly setting out its stance on ethical and sustainable trading practices, and promotes these values through its products, but recognises that it would be equally wrong to deny citizens of all countries the opportunity to enjoy its products and services in the knowledge that they have been produced and provided based on ethical and sustainable principles – or at least that's what the website states. This is typical of the ethical dilemma facing many companies today.

The board of directors take the issue of sustainable development very seriously and produce a CSR report annually, as well as setting specific targets for sustainability issues. For example setting targets around the area of waste management/reduction, carbon emissions, and energy usage.

Some of the product ranges that are sold can be subject to seasonal fluctuation and also subject to sudden changes in the weather. For example, clothing ranges are subject to seasonal variations and a hot and sunny spell in the summer months can create a short-term increase in demand for garden furniture. Added to this is the changing demographics in different countries, particularly as HW plc trades in emerging markets as well as developed countries. This can mean that the populations in some of its markets are what could be described as aging populations, whilst others are more vibrant and growing fast. Differing levels of income between the developed and emerging economies also poses a problem. In some markets, for example, the stores are serving a more aspirational population and are operating at break-even in the hope that when the average income levels rise the sales will increase as the brand name is established within the high street. Many markets in which HW plc operates have a good proportion of millennials – a generation that has grown up with new technologies, and therefore expect to do most of their shopping online and pay via mobile technology, even if buying in a retail store.

HW plc is committed to developing its technology platforms to create a truly multi-channel market place that takes account of the developing technologies for shopping and payment. Nearly all stores in all locations operate a 'click and collect' service and all countries operate an online store, albeit that this is utilised to different levels by consumers in different countries, that is, high usage in developed countries, less so in emerging economies. The increased use of technology applications, however, has opened up the threat of cyber-crime and the board of directors recently announced increased investment in its ability to protect its customers from this threat.

Apart from having to comply with a range of local government legislation within its various markets, such as local tax laws, trading law and building regulations, and so on, the issue of consumer protection is becoming even more prevalent in all markets. This is particularly true of the consumer credit and regulations governing financial transactions since the financial crisis, which has impacted on the financial services part of the business. HW plc offers a store card which can also act as a credit card, as well as offering financial assistance to purchase more expensive items via a personal loan or 'hire purchase' agreement. In most markets this area is subject to increasing regulation, for example, in the UK from the Financial Conduct Authority.

The industry

The industry is made up of several 'types' of company. **Department** stores sell a wide range of products; **discount** stores tend to stock a smaller range of products but compete on price, and **speciality** stores focus on a specific class of product, for example, clothing stores, or home furniture stores. A typical department store might be Wal-Mart, Sears, and John Lewis. These are also typically 'chain stores', that is, they are large organisations that have a chain of stores carrying the company name. These companies have well developed supply/distribution chains, highly sophisticated inventory management systems, and wide-scale marketing. Many have financial services companies that operate store/credit cards targeted at their own customers to build brand loyalty, but these are also offered more widely as a tool to attract more customers to the store or just to increase the sales of the financial services products. HW plc sell 'own label' brands (that is, products that carry the brand of the store and are sold under a HW brand name) as well as a range of branded products from other manufactures, such as Bang & Olufsen, Lenovo, Ted Baker, Abercrombie & Fitch, Hoover, Bernhardt furniture, Nike, and so on. In recent years the market has tended to become dominated by the 'chain' stores, and there has been a marked decline in the number of independent stores in the high street. The independent stores find it increasingly difficult to compete against the economies of scale that are enjoyed by the 'chain' stores, as independent stores tend to be either family run stores or smaller groups that are regionally targeted, and therefore struggle to finance expansion and to compete on price and brand recognition. They also find it difficult to establish supply contracts on the same terms as the chain stores.

The larger players tend to sell 'hard' and 'soft' products. 'Hard products' are appliances, electrical goods, furniture and sporting goods, whereas the term 'soft goods' is used in relation to clothing and apparel. Independent stores tend to focus on one classification of goods, whereas chain stores will stock a broad range. This provides them with a significant advantage in that due to the range of goods sold there are few substitutes available to consumers that offer the same level of convenience, quality and price. For example, a substitute for furniture could be to build it yourself by purchasing the materials from a D.I.Y (Do It Yourself) store, use a contract manufacturer, or go to a specialist store which may not be able to match the same combination of convenience, quality and price.

Another key factor in the industry is the speed with which the chain stores are able to open new stores. Typically within a country the chain stores are opening an average of one new store per week. However, despite the high street and shopping Malls being dominated by chain stores, the market is still highly fragmented, that is, there are many different players in the market place. Therefore, part of the competitive advantage is the visual appeal of the stores themselves. Great attention is paid to store layout and selling techniques to encourage the consumer, not just to purchase, but also browse for ideas that might either create an impulse purchase, or as an idea to save up for later, hence the importance of customer retention and repeat visits. In some emerging economies the idea of encouraging shoppers to browse and spend time in the retail stores is seen as helping to generate future business, and the big brands engage in 'aspirational' marketing so that, once the general income rises as the country's economy grows, customers will aspire to shop at their store. HW plc pays particular attention to its brand image by ensuring that its stores are bright and give the appearance of space, creating a relaxing environment in which to shop. A recent customer survey conducted in the UK indicated that customers liked the shopping environment at HW plc stores. However, in some countries, the stores were in need of refurbishment and the board of directors were keen to address this issue.

The large chain stores develop strong relationships with their suppliers. Indeed some of the larger chains have been accused of 'bullying' the smaller suppliers. It is interesting, however, that suppliers of goods that have a strong brand image, such as Louis Vuitton and Burberry, can resist the tactics of the larger chain stores due to the number of competitors through which they could sell their products and, in some instances, prefer to sell their brands through their own outlets. This has the effect of mitigating some of the potential bargaining power that the larger chain stores may be able to exert over smaller less well known suppliers. A few larger chain stores also have their own manufacturing facilities (as does HW plc) but mostly chains tend to focus on the core competences associated with retailing, as being a good retailer does not necessarily mean you can be a good manufacturer, and vice versa. The margins are also different between manufacturing and retailing.

In retailing the margins are often lower, due to the high level of competition in the market place. The low switching costs that consumers have, that is, it is easy for them to shop at another store, makes it difficult to pass on cost increases that arise, for example, through inflation and leasing costs of property. Much of management's time can be spent negotiation with suppliers of products and the landlords of property. This is another area where the chain stores have an advantage over the independent stores. The economies of scale and benefits of centralisation can give them an advantage in times of economic uncertainty. In some respects there are more opportunities for cost reduction and rationalisation of product ranges in an economic downturn, but on the reverse side it enables larger stores to be more responsive to fluctuations in personal and disposable income when economies are growing. The larger stores are also able to cater for a wider demographic than independent stores, that is, they can stock own label products which may have a broad appeal, but also stock more exclusive brands that appeal to a smaller segment of the population and hence will have smaller sales, so are effectively subsidised by the more popular brands.

The stocking of numerous, smaller branded ranges is also achieved by 'in store concessions', that is, a section of the store's retail space is given over to a branded product in which the owner of the branded product pays a fee to the retailer but keeps the profits from the sale. In continents such as North America a concession is a bit like a mini store within a store. It enables a department store to benefit from offering a wide range of products which could entice customers into the store, without necessarily taking the risk of stocking the products themselves. In a sense they are renting retail space within their store to other companies. In some cases the concessions granted may be selling products that compete directly with the stores own brands, so the strategy is not without risks. The strategy is often used by brands such as Burberry, Gucci, Prada and Dior. There are advantages to be gained by the concession company such as access to market – the company gains access to the market within a retail atmosphere that is less expensive than operating a single shop. Also if other concessions are present it can create the feeling of being surrounded by luxury items and encourage customers to buy.

In the past few years there has been an increase in merger and acquisition activity in the sector. Not just within the retail firms, but also within the supply sectors. As many of the suppliers are seeking to increase their share of the market they are expanding, via merger and acquisition, to gain access to global markets. The board of directors has noticed more recently that an increasing number of its suppliers are becoming 'global', whereas, going back a few years many would be considered as 'local' suppliers. Indeed many of the brands that are stocked by HW plc stores and sold via the online sales would be considered as global brands, or at least brands that were recognised internationally.

The company

HW plc was established in 1867 by Reginald and Abigail Crabtree. A brother and sister partnership in which Reginald handled the acquisition of materials via the shipping channels in to the capital city, London, and later Abigail developed the clothing manufacturing and retail business. The company quickly established a reputation for being able to supply a range of products that had popular appeal. Reginald had many contacts in the city and the company diversified successfully via acquisition with the help of private finance, until it became known as a homeware company, selling both 'hard' and 'soft' product ranges. The company sells products and services under the headings of: Home and Garden, Interior Design, Clothing, Electricals and Financial Services. More recently to support its online business HW plc acquired a European logistics company so that it is able to more directly control the delivery to its online customers in Europe. The main sales proposition is convenience, quality and reasonable prices. It has often run a marketing campaign with the tag line 'Never knowingly beaten on price'.

In 1917 the company achieved a listing on the London Stock exchange and embarked on a further expansion programme. The company flourished and in the 1950s the overseas expansion began to take shape. Today the company sources products from around the world, has a physical presence in 28 countries across six continents - Europe, Africa, North-America, South-America, Asia, and Australia. It has managed to continue to grow through two world wars, various economic depressions and countless world events, but since the late 1980s has struggled to sustain the high levels of growth that had been achieved in its history up to that point. The chairman puts this down to the increased competition, changing dynamics of the global economy brought about not least by the internet, the growing significance of emerging economies for established businesses, changing demographics in many economies, and more recently economic uncertainty in many economies around the world. One of the aspects that has been noticed particularly in the western economies is the lower consumer confidence, and, despite low interest rates, consumer spending generally in the homeware market has been slightly depressed, resulting in increasing competition in the high street and reducing margins.

The strategic focus more recently has been to target cost reduction activities without compromising quality or customer service, so effectively looking to seek out areas of inefficiency and target better ways of doing things. Also, store development has been high on the agenda - despite receiving some good customer reviews in the UK a good proportion of the stores in other parts of the world were in need of refurbishment, and, due to increased competition and difficult trading conditions, a rationalisation of retail space in all locations has been instigated. The 'space race' of many retailers in the 1990s early 2000s, where expansion of retail presence in strategic locations on the high street was seen as the key way to increase sales in developed markets (essentially a saturation strategy) has given way to a more focused approach with more emphasis on the online business and the development of sales techniques such as 'click and collect', 'fast track collection', 'home delivery', and the development of 'hub and spoke' distribution networks to facilitate these. Significant investment in real time stock/inventory visibility and stock/inventory picking systems has been made in the past two years. This has facilitated an overall reduction in stock/inventory holding costs and also helped to maintain margins on key product lines. There were, however, a few instances during the last year in which marketing campaigns had championed specific product ranges only for the supplier to let them down, which resulted in bad publicity. This has prompted a review of supply chain management issues and supplier relationships. Another recent incident occurred in the African continent in which the company has been implicated in bribery charges – a charge which the company vehemently denies, but nevertheless has received significant publicity in parts of the world.

The company still retains elements of manufacturing, particularly in clothing and furniture, but has noted the declining profit margins due to rising labour costs and the board of directors are considering reviewing this part of the business in the near future. Historically the manufacturing part of the business was centred in Europe (including the UK) but over recent years manufacturing units were established in the emerging economies and Asia to take advantage of lower labour costs, but also to be nearer their international markets, which made logistical sense in supplying these markets more effectively. Some parts of the business were also suffering due to the global sourcing of products of brands from other manufacturers and fluctuations in the currency markets. The UK business had been particularly hit by the reduction and subsequent partial recovery, of the pound sterling as a result of the uncertainty around the exit from the EU – BREXIT.

The company employs in excess of 1m people and is proud of its staff recruitment and development in which it actively promotes diversity in the workplace and equal opportunities. There has been recent media coverage of incidents of bias in not promoting local staff in several countries in which senior management positions were held by UK citizens, who had been seconded to the countries to manage the businesses. The company claims that this is to ensure consistency of operations, but media commentators argued that if the board of directors were serious about ethical behaviour and diversity this could be achieved by staff development with staff drawn from the local community.

The main difficulty facing the board of directors immediately is that the shareholders are expecting the results to show an improvement over last year, as promised by the chairman at the last annual general meeting. The problem is that it looks as though profits will be down again this year and the majority shareholders, who are institutional shareholders, will be pushing for some action to be taken. This has promoted a 'future potential review' ahead of formulating a plan to take the company forward.

The board of directors has noted that there are countries where business could be expanded. An article in the FT suggesting that the TICKs (Taiwan, India, China, Korea) is replacing the BRICS (Brazil, Russia, India, China, now including South Africa (added in 2010)) as the deepening recessions in Brazil and Russia has been putting off fund managers. Other countries are designated as having potential such as Mexico, Indonesia, Nigeria, Turkey (MINT), also the Philippines, Pakistan, Vietnam and Bangladesh, all of which have the potential to become among the world's largest economies this century. A significant factor concerning the board of directors in relation to the emerging economies is that existing local competitors may seek to increase their global reach by expanding into markets where HW plc currently has a market presence, and thus become much bigger competitors on a global scale. There are a few members of the board of directors who feel that market development into these countries is the best strategy for the future growth of HW plc, and to counter the threat from the local companies becoming more global competitors. However, there are other directors on the board who feel that focusing on the most profitable sectors and product ranges would be more appropriate. Product innovation and a clear differentiation factor were put forward as being the key to success in the sector, whilst others considered further diversification would spread the economic risk. It had been suggested that developing the financial services element of the business to create a bank would be one way to achieve additional profits, taking advantage of the deregulation in financial markets. It was clear that there were varying opinions on the board of directors and that conducting a 'future potential review' was probably the best way to evaluate the options.

Financial performance

The company has struggled in recent years to maintain the profit levels, however, due to relatively good financial management over an extended period of time, the board of directors has been able to maintain good dividend levels for a considerable number of years. This is what attracted the institutional shareholders to invest in the company, due to its solid performance. However, in 2014 the board of directors decided to rationalise the business and sold some of the less profitable businesses in Europe. This rationalisation process continued into 2015 when the board of directors began a strategy of reducing what they considered to be an over-sized estate by closing some of the less profitable stores. This was due to the growing trend towards online sales and a move away from the high street in some of its more developed markets. This backfired a little. The sales level dropped along with the operating profit, although the company still recorded a profit. The major shareholders indicated their concern, also noting the reduction in margins which the chairman explained was due to difficult trading conditions. The cash generated from the sales was used to reduce the borrowings and consequently the gearing level. The board of directors has historically been conservative in their decision making and has tended to rely on equity finance rather than loan capital.

The biggest concern of the board of directors at the moment is that shareholders did not react very positively to the news that it is expected that the profits for year ended June 2017, when announced, will show that the company is likely to record the first loss in over 100 years. The abridged forecast income statement for 2018 is also shown below, together with the expected reported results for 2017 and actual results for 2016 and 2015. The chief executive will state in his report in the annual accounts that the continuing poor results are largely the effect of inconsistent store operations across the group, issues with stock availability, an estate of physical stores that is still too large to support the level of sales currently being generated, the increasing trend towards online shopping, and product pricing on some ranges not being competitive in the current market place.

HW plc – Summary Group Income statement for the year ended 30 June

	Forecast 2018 £m	Actual 2017 £m	Actual 2016 £m	Actual 2015 £m
Revenue	20,400.0	21,010.0	21,173.5	21,155.5
Cost of sales	(15,105.0)	(15,810.0)	(15,769.5)	(15,666.0)
Gross profit	**5,295**	**5,200.0**	**5,404.0**	**5,489.5**
Net operating expenses	(5,600)	(5,409.0)	(5,143.0)	(4,907.5)
Operating profit/(loss)	**(305)**	**(209.0)**	**261.0**	**582.0**

A further breakdown of performance is provided in appendix B

Operations

HW plc has developed a multi-channel operation in that it operates retail shops, mostly in the high street; has an online service that can be accessed via PC, tablet, and mobile device; provides a click and collect from store, as well as a home delivery service. A large proportion of the home and garden ranges such as furniture is shipped (transported and delivered) in flat pack form but delivery staff will assemble it in the customer's home if requested. Large electrical goods, such as washing machines and cookers, can also be installed by a suitably qualified technician arranged by the store. HW plc provides a five year guarantee on all large electrical goods and a three year guarantee on smaller goods such as kettles and toasters. Extensions to the maintenance contracts can also be purchased at the end of the standard manufacturer's guarantee. These extensions are provided by the financial services division of HW plc. Credit facilities are also provided by the financial services division. This can be via a personal loan arrangement, hire purchase or simply by using the HW plc sponsored credit card.

HW plc works very closely with suppliers to try and ensure that they are meeting customer expectations as regards the products. More recently HW plc has been working on ensuring that as much, and as many, of the products are made from sustainable materials with a strong focus on the recyclability of the component parts. To aid this process, HW plc has established a team of technical specialists at their head office whose role is to work with their suppliers on product development. This is part of the product design team that work with the HW plc manufacturing units to develop new HW branded and manufactured products. In the case of the larger independent suppliers this means that the HW team work closely with the research and development staff who work for the suppliers.

The delivery system is based on a hub and spoke model where large central warehouses supply smaller regional depots that supply retail stores in their area. Whilst this has obvious benefits it could mean that overall inventory levels are higher than might be the case if HW plc operated central warehouses only, but the key benefit is that local demand could be satisfied more effectively if warehouses are closer to the retail stores. The commercial operations director believes that this increases customer satisfaction ratings. Companies who operate concessions within the stores are required to use the HW plc warehousing system, and the concessions staff working the various stores re-order inventory through HW plc. In order for this to happen seamlessly concession companies are required to utilise the extensive IT network and inventory systems of HW plc. This arrangement gives HW plc some control over ensuring that the logistics and customer experience are similar across all stores and product ranges.

Front of house staff, that is, those available to customers in store, are trained in customer service techniques and also trained in certain product ranges. This means that staff are allocated to certain sections where they tend to work almost exclusively on a given product range, for example, audio visual equipment, or in the clothing section. This effectively creates a series of ‘mini’ specialist shops within a larger store. Concessions staff, those working for companies who operate a concession within the store, also receive some general training from HW plc, and, as with the inventory management, gives HW plc some control over the customer experience. Indeed the concession companies usually treat this as a benefit to operating a concession within HW plc, as this has a positive effect on their own sales.

The concessions arrangement allows HW plc to provide facilities such as an instore restaurant and play area for children, both of which are run by concession companies.

The layout of the stores are carefully designed to enhance the overall customer experience and aesthetic appeal of shopping. The marketing director is of the opinion that the stores are one of their biggest marketing tools. Brand recognition and product placement, that is, the HW brand for retailing being associated with good quality product brands, is a key element of the marketing. HW plc also uses TV advertising and web adverts. They have avoided celebrity endorsement preferring to build on HW’s own reputation for quality products at reasonable prices.

The manufacturing unit

HW plc still retains factories which manufacture its own range of furniture sold under the HW brand. The design teams with the manufacturing units work closely with the specialist team at the head office to create products that meet quality standards and are designed to be manufactured with sustainability as the key element of the design concept.

Materials are sourced from selected suppliers. In fact HW plc operates a strict quality regime with its suppliers. Indeed suppliers need to agree to work within certain standards before HW plc will add them to their approved supplier list. HW plc has a good reputation with suppliers, and due to their insistence on high quality standards, suppliers who are on the approved list gain a degree of credibility because they supply HW plc. Suppliers often report that they acquire additional business from other companies because they are on the HW plc approved supplier list. The open book accounting policy also works in their favour as suppliers know, that although quality standards are high, they will always be treated fairly by HW plc.

The inventory is managed via a JIT (Just-in-Time) system and the factory operates on a demand pull basis, that is, products are produced to order from the retail stores. This requires a flexible manufacturing system able to manufacture small production runs, but also puts the emphasis on inventory management within the retail business to ensure that they are not short of products, and that they can be replenished quickly through the hub and spoke distribution network. Stores will keep certain items in stock so that there is some slack in the system, which means that the factory keeps very low finished goods stock, as this is held by the stores or in the warehouse system. Customer orders for the special items sold as 'made to order' are sent to the factory via the electronic ordering and then scheduled into the production process as required. The customer requirements would have been taken by a skilled member of staff attached to the Interior Design division. Staff from the Interior Design division will visit the customers' premises to advise and make sure that measurements are correct. Customers are then able to track the order through the HW plc system using their customer number and a password that the customer selects. Once the order has been manufactured it is delivered to the customer using HW plc transport on the date agreed with the customer.

Appendix A

HW plc Group Income statement for the year ended 30 June

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Revenue	21,010.0	21,173.5	21,155.5	28,315.0	27,377.0	27,914.0	29,259.5
Cost of sales	(15,810.0)	(15,769.5)	(15,666.0)	(19,496.0)	(18,716.5)	(18,970.0)	(19,853.5)
Gross profit	**5,200.0**	**5,404.0**	**5,489.5**	**8,819.0**	**8,660.5**	**8,944.0**	**9,406.0**
Net operating expenses	(5,409.0)	(5,143.0)	(4,907.5)	(8,262.0)	(8,140.5)	(8,349.0)	(8,116.0)
Operating profit/(loss)	**(209)**	**261.0**	**582.0**	**557.0**	**520.0**	**595.0**	**1,290.0**
Finance income	8.0	9.5	17.0	52.5	15.5	26.5	36.5
Finance expense	(11.5)	(14.5)	(13.5)	(46.5)	(57.5)	(24.0)	(26.0)
Net Financing (expense)/income	(3.5)	(5.0)	3.5	6.0	(42.0)	2.5	10.5
Profit/(Loss) before tax	**(212.5)**	**256.0**	**585.5**	**563.0**	**478.0**	**597.5**	**1,300.5**
Taxation	(30.0)	(81.5)	(141.5)	(133.0)	(132.5)	(173.0)	(371.5)
Profit/(Loss) for the year after tax from continuing operations	**(242.5)**	**174.5**	**444.0**	**430.0**	**345.5**	**424.5**	**929.0**
Discontinued operations							
Profit/(Loss) for the year after tax from discontinued operations	75.0	137.5	56.0	0.0	0.0	0.0	0.0
Total Profit/(Loss) for the year attributable to equity holders of the Company	**(167.5)**	**312.0**	**500.0**	**430.0**	**345.5**	**424.5**	**929.0**

HW plc Group Balance Sheet as at 30 June

	2017	2016	2015	2014	2013	2012	2011
Assets		**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Non-current assets							
Goodwill	7,719.5	7,719.5	7,719.5	7,719.5	7,719.5	7,719.5	7,705.0
Other intangible assets	1,120.0	1,144.5	1,177.5	968.0	646.0	685.5	539.0
Property, plant and equipment	1,700.0	1,299.5	2,064.5	2,283.5	2,374.5	2,623.0	2,657.0
Deferred tax assets	140.0	130.0	223.0	206.5	203.5	253.0	197.0
Trade and other receivables	0.0	0.0	7.0	9.0	13.5	19.0	21.5
Other financial assets	45.0	51.5	53.0	49.5	122.0	87.0	76.0
Total non-current assets	**10,724.5**	**10,345.0**	**11,244.5**	**11,236.0**	**11,079.0**	**11,387.0**	**11,195.5**
Current assets							
Inventories	4,727.5	3,779.0	4,815.0	4,512.0	4,709.0	4,666.0	5,084.0
Trade and other receivables	4,401.5	4,151.5	3,950.0	3,560.5	3,184.0	2,973.0	3,051.5
Current tax assets	0.0	24.5	66.0	52.0	41.5	4.0	54.5
Other financial assets	150.0	260.5	150.0	5.0	184.5	41.5	7.0
Cash and cash equivalents	1,570.5	3,114.5	1,546.5	1,655.0	1,980.0	971.5	1,296.5
Total current assets	**10,849.5**	**11,330.0**	**10,527.5**	**9,784.5**	**10,099.0**	**8,656.0**	**9,493.5**
Non-current assets classified as held for sale	0.0	0.0	91.5	0.0	48.0	0.0	0.0
Total assets	**21,574.0**	**21,675.0**	**21,863.5**	**21,020.5**	**21,226.0**	**20,043.0**	**20,689.0**

Liabilities							
Non-current liabilities							
Long term borrowings	(100.5)	(104.5)	(631.0)	(950.0)	(897.5)	(937.5)	(937.0)
Provisions	(105.0)	(84.0)	(232.0)	(237.0)	(263.0)	(279.0)	(293.5)
Deferred tax liabilities	(40.0)	(70.0)	(121.5)	(64.5)	(133.0)	(109.5)	(122.5)
Past employment benefits	(402.5)	(472.5)	(572.0)	(383.0)	(425.5)	(576.5)	(377.5)
Total non-current liabilities	**(648.0)**	**(731.0)**	**(1,556.5)**	**(1,634.5)**	**(1,719.0)**	**(1,902.5)**	**(1,730.5)**
Current liabilities							
Trade and other payables	(5,400.0)	(5,257.0)	(4,993.5)	(4,611.5)	(4,919.5)	(3,990.0)	(5,237.5)
Provisions	(207.0)	(190.5)	(478.5)	(230.5)	(191.5)	(239.0)	(102.0)
Other financial liabilities	(11.0)	(13.0)	(14.5)	(182.5)	(14.0)	(26.0)	(147.0)
Current tax liabilities	(20.5)	(27.5)	(34.0)	(29.0)	(58.5)	(24.0)	(106.0)
Total current liabilities	**(5,638.5)**	**(5,488.0)**	**(5,520.5)**	**(5,053.5)**	**(5,183.5)**	**(4,279.0)**	**(5,592.5)**
Total liabilities	**(6,285.5)**	**(6,219.0)**	**(7,077.0)**	**(6,688.0)**	**(6,902.5)**	**(6,181.5)**	**(7,323.0)**
Net Assets	**15,288.5**	**15,456.0**	**14,786.5**	**14,332.5**	**14,323.5**	**13,861.5**	**13,366.0**
Equity							
Share capital	406.5	406.5	406.5	406.5	406.5	406.5	406.5
Share Premium Account	32.0	32.0	32.0	32.0	32.0	32.0	32.0
Other reserves	50.0	50.0	(307.5)	(261.5)	159.5	43.0	(28.0)
Retained earnings	14,800.0	14,967.5	14,655.5	14,155.5	13,725.5	13,380.0	12,955.5
Total equity	**15,288.5**	**15,456.0**	**14,786.5**	**14,332.5**	**14,323.5**	**13,861.5**	**13,366.0**

Appendix B - HW plc Group - Analysis of revenue and operating profit (Note: the manufacturing costs where relevant are included within the cost of sales of products)

2018 Forecast outturn for year ended 30 June 2018

	Home and Garden	Clothing	Electricals	Products	Interior Design	Financial Services	Total
	£m	£m	£m	£m	£m	£m	£m
Revenue	6,500.0	3,300.0	6,250.0	16,050.0	3,250.0	1,100.0	20,400.0
Cost of sales	(5,525.0)	(2,574.0)	(4,170.5)	(12,269.5)	(1,950.0)	(885.5)	(15,105.0)
Gross profit	975.0	726.0	2,079.5	3,780.5	1,300.0	214.5	5,295.0
Net operating expenses	(1,450.0)	(952.0)	(1,973.0)	(4,375.0)	(1,050.0)	(175.0)	(5,600.0)
Operating profit	(475.0)	(226.0)	106.5	(594.5)	250.0	39.5	(305.0)
Gross profit %	15.0%	22.0%	33.3%	23.6%	40.0%	19.5%	26.0%
Operating profit %	-7.3%	-6.8%	1.7%	-3.7%	7.7%	3.6%	-1.5%

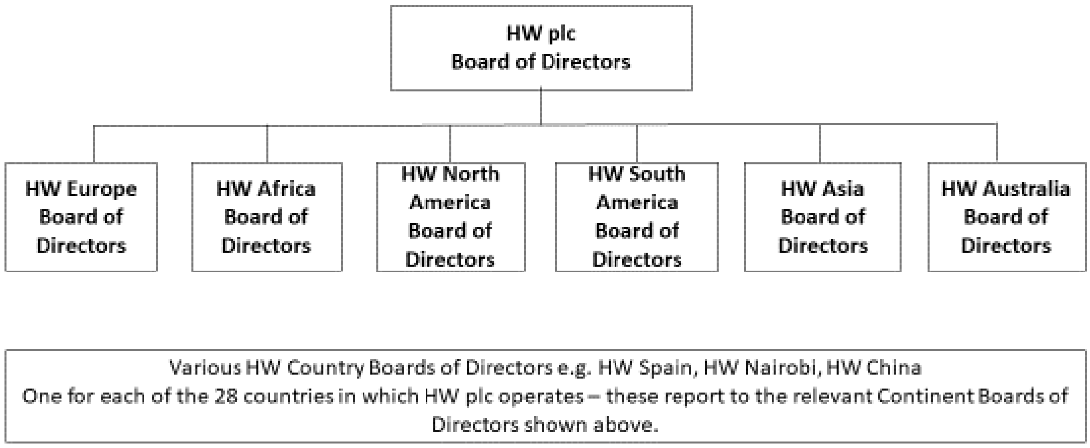
2017 – Actual performance for year ended 30 June 2017

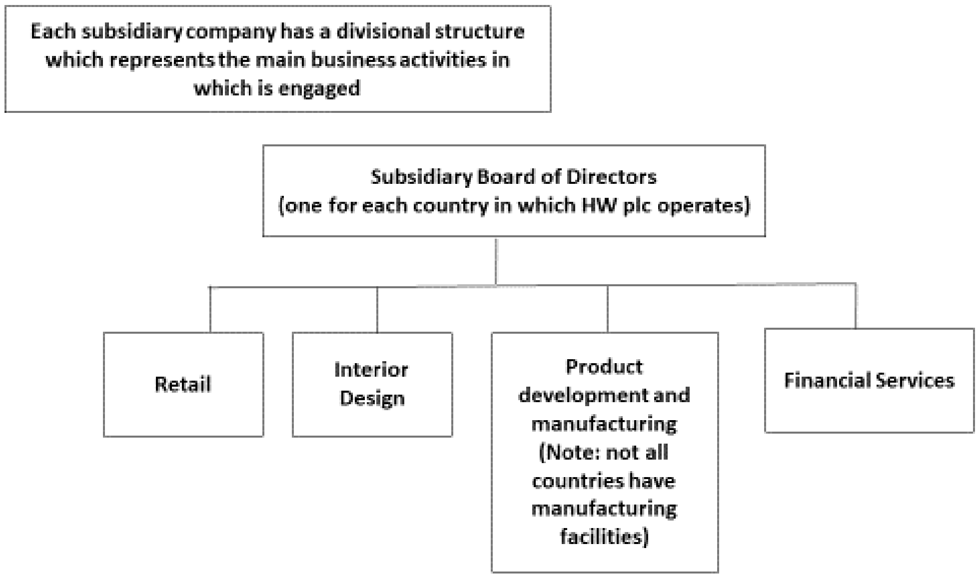
	Home and Garden	Clothing	Electricals	Total of Products	Interior Design	Financial Services	Total
	£m	£m	£m	£m	£m	£m	£m
Revenue	6,000.0	4,000.0	7,000.0	17,000.0	3,000.0	1,010.0	21,010.0
Cost of sales	(5,220.0)	(3,120.0)	(4,920.0)	(13,260.0)	(1,740.0)	(810.0)	(15,810.0)
Gross profit	**780.0**	**880.0**	**2,080.0**	**3,740.0**	**1,260.0**	**200.0**	**5,200.0**
Net operating expenses	(1,509.0)	(1,000.0)	(1,800.0)	(4,309.0)	(950.0)	(150.0)	(5,409.0)
Operating profit	**(729.0)**	**(120.0)**	**280.0**	**(569.0)**	**310.0**	**50.0**	**(209.0)**
Gross profit %	13.0%	22.0%	29.7%	22.0%	42.0%	19.8%	24.8%
Operating profit %	-12.2%	-3.0%	4.0%	-3.3%	10.3%	5.0%	-1.0%

2016 - Actual performance for year ended 30 June 2016

	Home and Garden	Clothing	Electricals	Total of Products	Interior Design	Financial Services	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue	6,055.3	4,325.2	6,920.4	17,300.9	3,175.6	697.0	21,173.5
Cost of sales	(5,157.5)	(3,326.6)	(4,822.4)	(13,306.5)	(1,905.4)	(557.6)	(15,769.5)
Gross profit	**897.8**	**998.6**	**2,098.0**	**3,994.4**	**1,270.2**	**139.4**	**5,404.0**
Net operating expenses	(1,430.1)	(1,021.5)	(1,634.4)	(4,086.0)	(952.6)	(104.4)	(5,143.0)
Operating profit	**(532.3)**	**(22.9)**	**463.6**	**(91.6)**	**317.6**	**35.0**	**261.0**
Gross profit %	14.8%	23.1%	30.3%	23.1%	40.0%	20.0%	25.5%
Operating profit %	-8.8%	-0.5%	6.7%	-0.5%	10.0%	5.0%	1.2%

Appendix C – HW plc Organisation Structure





Appendix D – HW plc board of directors

The main Board of Directors

Chairman	Sir Fred Bloggs (70) has a wealth of experience in the retail trade
Chief Executive	John Smith (55) – has worked for HW PLC since leaving school when he began working as a retail assistant
Finance Director	Shirley Valentine (45) - qualified with the accounting firm now known as PricewaterhouseCoopers (PwC) and moved into the retail sector shortly afterwards – has previous experience of the FMCG industry sector (Fast Moving Consumer Goods) – has been with HW PLC for 5 years
Human Resource Director	Gloria Aleluya (50) – worked in the public sector in various HR roles until joining HW PLC 10 years ago
Commercial Operations Director	John T.B. Snow (47) – joined HW PC from a major competitor 15 years ago.
Marketing Director	Caroline Quinn (35) – has been with HW PLC since graduating with a degree in Retail Marketing and has been a Director for the last 5 years
International Development Director	Huang Zu (46) – joined HW PLC 10 years ago – holds an MBA from Harvard University and has previous retail experience.
Customer and Financial Services Director	Seema Patel (36) – joined HW PLC 6 years ago and has previous experience of the financial services industry
Information Systems Director	James Onyewuchi (52) – joined HW PLC 3 years ago with a remit to develop the online sales business
Group CSR Director	Angela Schapiro (35) – joined from a public sector company 4 years ago and has been working to increase HW PLC's sustainability reputation as part of its competitive advantage.
Non-executive Director	Major Charles de Whit (57) – Retired Army Major where he specialised in logistics
Non-Executive Director	Sandra Chu (49) – Works for a non-governmental organisation promoting sustainable practices
Non-Executive Director	Abeer Al-Hajri (57) – has experience of retail in the Middle East now living in London
Non-Executive Director	Michael Holding (63) – has experience of furniture business and ran his own interior design business which he sold 2 years ago for £30m.
Non-Executive Director	Abraham Heights (67) – has retail experience
Non-Executive Director	Reece Jones (53) – has retail experience
Non-executive Director	Timothy Kinder (56) – has retail experience in international markets
Company Secretary (note the Company Secretary is not classed as a Director)	James Croydon (55) – has worked for HW PLC since leaving school.