APPENDIX A - Case Study - HW Inc.

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[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]

A1 Brief introduction to HW Inc.

The HW company was established in the U.K. by the Crabtree family in 1867. It is now a global company operating in 28 countries and listed on several stock exchanges. Although the company has its origins in London, the head office relocated to New York in the early 1990s to reflect the growing global nature of the business. The business began by importing cloth from various countries to London, which was then sold via wholesale markets. In the early 1900s, HW ventured into manufacturing clothes, and later diversified, via both horizontal and vertical integration, into household goods. The company is categorized as selling 'homeware', which is a label that loosely describes the wide range of products found in the home.

It is a highly competitive market, and HW Inc. would consider its competitors to include companies such as the U.K.-based John Lewis, H & M, Supergroup Inc.; U.S.-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 Inc. sells goods through its retail stores and online. The company has a variety of different brands under which it manufactures and sells its 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 Inc. operates across six continents: Europe, Africa, North America, South America, Asia, and Australia.

A senior management team (the C-suite) manages the group company, consisting of an independent chairperson, nine executive members, and seven non-executive or independent directors (see Exhibit D). In the U.K., this is known as the Board of Directors or in the U.S., the Supervisory Board. Underneath the parent company, HW Inc., there are six subsidiary companies, each representing a continent (for example, HW Africa) and each having a separate senior management team (see Exhibit C). Also, within each continent subsidiary, an independent country subsidiary company is established (for example, HW Kenya) with its local senior management team, which is responsible for managing the business within each country.

This structure creates a cascading hierarchy of companies representing every country in which HW operates. The overall strategy and policy are set by the parent company head office in New York, but each 'local' [country] management team has a reasonable amount of autonomy to operate within specific guidelines. This autonomy allows for a speedy local response to be made to market conditions and competitor actions but ensures that the overall strategy is controlled. HW Inc.'s C-suite view this as a form of parental control.

A2 Vision and mission statement

Vision

Our vision is that every home is filled with products that make life easier, enable people to enjoy life, and by having a happy home life to realize their dreams and make the world a happier place.

Mission

Our mission is to offer a wide range of quality products that can be used in creating the perfect home, at affordable and competitive prices, backed up with exceptional customer service. We use sustainable materials wherever possible, engage in staff development activities to help all of our staff become ambassadors for clean and healthy living, encourage and facilitate our people to become involved in the local community activities while providing a reasonable return for our investors.

A3 Business Environment

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

One way in which HW Inc. has attempted to reduce the impact of the competition is to focus on a clear strategy of convenience and customer value. HW Inc. provides good quality products for reasonable and competitive prices. The reliability of the products is reinforced by offering a five-year guarantee on most product ranges. HW Inc. is also cautious about its supply chain management and imposes strict quality checks on its suppliers.

As part of its supply chain management strategy, HW Inc. operates a form of "open book" accounting in which suppliers are guaranteed an agreed share of the margin on the products sold through HW Inc. This openness 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. This practice might seem to be a mistake by HW Inc., in that it does not seek to exploit or take advantage of potential buyer power to increase profits or keep prices artificially low.

The policy does, however, have benefits as small companies, who often have a high-quality brand image, are willing to supply HW Inc. with their product range – in some cases with product lines made exclusively for HW Inc. Selling high-quality brands from a variety of suppliers benefits HW Inc.'s brand. It does, however, also present some logistical, strategic challenges when operating globally over a diverse product portfolio.

In recent years, following the financial crisis, the senior managers 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 careful negotiations with suppliers have had to take place to contain cost increases.

One of the biggest threats to the growth of HW Inc. is competitor activity. Attempting to maintain a competitive edge in all six continents is extremely difficult, especially when competitors in some parts of the world are operating in a less than ethical manner. The protection of brand image and copyright issues has been an issue in some markets, not to mention the problems of bribery and corruption.

The political stability in some regions has also affected parts of the business from time to time. In some instances, the company has had to suspend supply arrangements of certain product lines due to the disruption of the supply chain.

Managing 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. The finance department is strictly forbidden to speculate on the markets and is only permitted to use financial instruments for risk management.

HW Inc. has been severely affected by the covid-19 lockdown in nearly all the countries in which it operates. Online sales have provided some relief, but the company has seen a considerable drop in sales revenue. The policies of various governments have also affected the company in different ways. The U.S. is currently adopting a slightly more protectionist policy, and the issue of BREXIT in Europe (the U.K. leaving the European Union) has created uncertainty in the European market.

Employment policies such as the minimum wage and labor laws differ around the world, which creates issues for the fair and equitable management of human resources within the company. The company has been very conscious of human rights. It has a stated policy of not working with companies that are suspected of exploiting labor, but aspiring to be a global company makes it difficult to refuse to trade in countries with a poor human rights record.

The head office authorized over 100 ethical audits during the year on its suppliers around the world. The website sets out its stance on ethical and sustainable trading practices. It promotes these values through its products but recognizes 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 are produced and provided based on ethical and sustainable principles — or at least that's what the website states. Maintaining ethical standards while growing global trade is typical of the dilemma facing many companies today.

The company takes the issue of sustainable development very seriously. It produces a CSR (Corporate Social Responsibility) report annually, as well as setting specific targets for sustainability issues, for example, setting targets around the area of waste management, waste reduction, carbon emissions, and energy usage.

Some of the product ranges that are sold can be subject to seasonal fluctuation and 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 in developed countries. Added to this is the changing demographics in different countries, particularly as HW Inc. trades in emerging markets as well as developed countries. This changing demographic can mean that the populations in some of its markets are what could be described as aging populations, while 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. They are operating at breakeven in the hope that when the average income levels rise, the sales will increase as the brand name establishes itself on the high street. Many markets in which HW Inc. operates have a high proportion of millennials. This generation has grown up with new technologies and therefore expects to do most of their shopping online and pay via mobile technology, even if buying in a retail store.

HW Inc. is committed to developing its technology platforms to create a genuinely multi-channel marketplace that takes account of the developing technologies for shopping and payment. Nearly all stores in all locations operate a “click and collect” service. All countries operate an online store, albeit that this is used 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 the threat of cyber-crime, and the company 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 prevalence is particularly true of the consumer credit and regulations governing financial transactions since the financial crisis of 2008–2009, which has impacted on the financial services business. HW Inc. offers a store card that can also act as a credit card, as well as providing 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 U.K. from the Financial Conduct Authority, or the Equal Credit Opportunity Act in the U.S., the State Administration for Industry and Commerce (SAIC) in China, and India, the Reserve Bank of India (RBI), through the provisions of the Banking Regulation Act, 1949.

A4 The industry

The industry is made up of several types of companies. **Department** stores sell a wide range of products; **discount** stores tend to stock a smaller range of products but compete on price, and **specialty** stores focus on a specific class of product, for example, clothing stores, or home furniture stores. A typical department store might be Sears, Bloomingdale’s, Macy’s, Primark, Ackermans, Jiuguang Department Store, and John Lewis. These are also typically chain stores; that is, they are large organizations 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 customers to build brand loyalty. The credit cards are also offered more widely as a tool to attract new customers to the store or just to increase the sales of the financial services products.

HW Inc. sells own-label brands, that is, products that carry the brand of the store and are sold under an HW brand name. They also sell a wide range of branded products from other manufacturers, 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 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. These 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 challenging to establish supply contracts on the same terms as the chain stores. These smaller stores have also been hit much harder by the covid-19 crisis.

The more significant players tend to sell “hard” and “soft” products. “Hard” products are appliances, electrical goods, furniture, and sporting goods, whereas the term “soft” is used with clothing and apparel. Independent stores tend to focus on one classification of goods, whereas chain stores will stock a broad range. This variety of product offering provides them with a significant advantage as 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. These outlets may not be able to match the same combination of convenience, quality, and price as the department store.

Another significant factor in the industry is the speed with which the chain stores can open new stores. Typically, within a country, the chain stores are opening an average of one new store per week, although this will not be the case following the covid-19 pandemic. Indeed, many department stores may not open all of their stores again following the lockdown. 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 marketplace. 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 to browse for ideas that might either create an impulse purchase or something to save up for and purchase 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 retail stores is seen as helping to generate future business. The big brands engage in aspirational marketing in the hope that, once general incomes rise as the country’s economy grows, customers will aspire to shop at their store. HW Inc. pays special 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 several countries indicated that customers liked the shopping environment at HW Inc. stores. However, in some countries, the stores needed refurbishment, and the company is 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 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. This ability is due to the number of competitors through which they could sell their products. In some instances, the major brand names prefer to sell products through their own branded outlets. This practice 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 manufacturing facilities (as does HW Inc.). Most chain stores, however, tend to focus on the core competencies associated with retailing, as being an excellent retailer does not necessarily mean you can be an outstanding 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 marketplace. Also, the low switching costs for consumers, that is, the ease with which they can shop at another store, makes it difficult to pass on cost increases that arise, for example, through inflation and leasing costs of a property. Much of management's time can be spent negotiating with suppliers of products and the landlords of property to keep costs in check.

Another area where the chain stores have an advantage over the independent stores is in achieving economies of scale, and the benefits of centralization can give them an edge in times of economic uncertainty. In some respects, there are more opportunities for cost reduction and rationalization of product ranges in an economic downturn. On the reverse side, however, 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 to a broader demographic than independent stores. For example, they can stock their own-label products, which may have a broad appeal, but also stock more exclusive brands that appeal to a smaller segment of the population. The more popular brands effectively subsidize exclusive brands.

In-store concessions also achieve the stocking of numerous, smaller branded ranges. 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. On 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 store's own brands, so the strategy is not without risks. The concessions approach 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 the 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 the supply sectors. Suppliers are seeking to increase their market share by expanding, via merger and acquisition, and gain access to global markets. The senior managers have noticed more recently that an increasing number of its suppliers are becoming global, whereas, a few years ago, many would have been considered as local suppliers. Indeed, many of the brands that are stocked by HW Inc. stores and sold via online sales would now be regarded as global brands, or at least brands that were recognized internationally.

A5 The company

HW was established in England, UK, in 1867 by Reginald and Abigail Crabtree. A brother and sister partnership in which Reginald handled the acquisition of materials via the shipping channels into the capital city, London, and later Abigail developed a clothing manufacturing and retail business. The company quickly established a reputation for being able to supply a range of products that had widespread 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 acquired a European logistics company so that it can 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 program. The company flourished, and in the 1950s, the overseas expansion began to take shape. In 1992 the head office relocated to New York, and the company made the New York stock exchange its primary listing, and HW Inc. became its preferred title. Today the company sources products from around the world and has a physical presence in 28 countries across six continents - Europe, Africa, North America, South America, Asia, and Australia.

HW has managed to continue to grow through two world wars, various economic depressions, and countless world events, but since the late 1990s has struggled to sustain the high levels of growth that had been achieved in its history up to that point. The chairman of HW Inc. 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 factor affecting trade that has been noticed, particularly in the western economies, is the lower consumer confidence. 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. More recently, the covid-19 pandemic is expected to have a significant impact on the company’s performance.

The strategic focus of the last few years 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 list. Despite receiving some good customer reviews in some parts of the world, a high proportion of the stores need refurbishing, and, due to increased competition and challenging trading conditions, a rationalization of retail space in all locations has been instigated.

The "space race" of many retailers in the 1990s early 2000s, where the expansion of retail presence in strategic locations on the high street was seen as the best way to increase sales in developed markets (virtually a saturation strategy) has given way to a more focused approach. There is now 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 the hub and spoke distribution networks to facilitate these.

Significant investment in real-time inventory visibility and inventory picking systems has been made in the past two years. This strategy has facilitated an overall reduction in inventory holding costs and helped to maintain margins on significant 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 adverse publicity. This situation has prompted a review of supply chain management 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 which has received significant publicity in some 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 labor costs, and the head office management team is considering reviewing this part of the business. Historically the manufacturing part of the business was centered in Europe (including the U.K.), but during recent years manufacturing units were established in the emerging economies. This move was made to take advantage of lower labor costs, but also to be nearer their international markets, which made logistical sense in supplying these markets more effectively. In some respects, however, this move created other issues, such as increasing the exposure to fluctuations in the currency markets. The U.K. had been hit by the reduction and subsequent partial recovery of the pound sterling due to the uncertainty surrounding the exit from the E.U. – BREXIT.

The company employs more than 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 developing and emerging economies in which senior management positions were held by either U.K. or U.S. citizens, seconded to the countries to manage the businesses. The company claims that this is to ensure consistency of operations. Still, media commentators argued that if the company was serious about ethical behavior and diversity, this could be achieved by staff development with staff drawn from the local community.

The main difficulty facing the company at the start of the year was that the shareholders were expecting the results to show an improvement over last year, as promised by the chairman at the recent annual shareholders meeting. The problem is that even before taking into account the covid-19 crisis, it looks as though there will be a significant reduction in profits this year, and the majority shareholders, who are institutional investors, will be pushing for some action to be taken. This situation has promoted a "future potential review" ahead of formulating a plan to take the company forward.

The head office management team noted before the covid-19 crisis hit, that there were countries where business could expand. An article in the U.K.'s Financial Times suggested that the TICKs (Taiwan, India, China, Korea) are replacing the BRICS (Brazil, Russia, India, China, now including South Africa (added in 2010)) as the deepening recessions in Brazil and Russia had been putting off fund managers. Other countries designated as having potential include 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 senior managers about the emerging economies is that existing local competitors may seek to increase their global reach by expanding into markets where HW Inc. currently has a market presence. There are a few members of the head office management team who feel that market development into these countries, post-covid-19 is the best strategy for the future growth of HW Inc., and to counter the threat from the local companies becoming more global competitors. However, other members of the team feel that focusing on the most profitable sectors and product ranges would be more appropriate.

Product innovation and a definite differentiation factor were put forward as being the key to success in the sector, while others considered further diversification would spread the economic risk. One suggestion is to develop the financial services element of the business to create a retail bank. Currently, HW manages the credit facilities and the store credit card. Expanding this to a full-scale retail 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 within the head office management team and that conducting a "future potential review" was probably the best way to evaluate the options.

A6 Operations

HW Inc. 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; and 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 Inc. provides a five-year guarantee on all large electrical goods and a three-year guarantee on smaller products such as kettles and toasters. Extensions to the maintenance contracts can also be purchased at the end of the standard manufacturer's warranty. These extensions are provided by the financial services division of HW Inc. The financial services division also provides credit facilities. Credit can be via a personal loan arrangement, hire purchase, or by using the HW Inc. sponsored credit card.

In the early 1980s, the manager of the flagship store in New York began to stock and sell sports equipment and apparel, mainly tapping into the running boom of the 1970s and 1980s. This policy proved to be remarkably successful, and the senior management team (C-suite) picked up on the idea and encouraged all stores to stock sports equipment and apparel. Sports apparel is included within the clothing category of the product range.

HW Inc. works very closely with suppliers to try and ensure that they are meeting customer expectations as regards the products. More recently, HW Inc. 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 components. To aid this process, HW Inc. has established a team of technical specialists at their head office, whose role is to work with suppliers on product development. This specialist team is part of the product design team that works with the HW Inc. manufacturing units to develop new HW branded and manufactured products. In the case of the larger independent suppliers, this means that the HW team works closely with the suppliers' research and development teams.

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. While this has obvious benefits, it could mean that overall inventory levels are higher than might be the case if HW Inc. operated central warehouses only. Still, the critical advantage is that local demand can be satisfied more effectively if warehouses are closer to the retail stores. The commercial operations director (Vice President operations) believes that this increases customer satisfaction ratings. Companies that operate concessions within the stores are required to use the HW Inc. warehousing system, and the concessions staff working the various stores re-order inventory through HW Inc. For this to happen seamlessly concession companies are required to use the extensive IT network and inventory systems of HW Inc. This arrangement gives HW Inc. 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 trained in specific product ranges. This practice means that staff are allocated to particular sections where they tend to work almost exclusively on a given product range, for example, audiovisual equipment, or the clothing section. This allocation of staff 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 Inc., and, as with the inventory management, gives HW Inc. some control over the customer experience. Indeed, the concession companies usually treat this as a benefit to operating a concession within HW Inc., as this has a positive effect on their sales. The concession arrangement allows HW Inc. to provide facilities such as an in-store restaurant and play area for children, both of which are run by concession companies.

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

A7 The manufacturing unit

HW Inc. still retains factories that manufacture HW's 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. HW Inc. operates a strict quality regime with its suppliers. Indeed, suppliers need to agree to work within specific standards before HW Inc. adds them to their approved supplier list. HW Inc. 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 Inc. Suppliers often report that they acquire additional business from other companies because they are on the HW Inc. approved supplier list. The open book accounting policy also works in their favor as suppliers know that although quality standards are high, they will always be treated fairly by HW Inc.

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. The demand-pull policy requires a flexible manufacturing system able to manufacture small production runs but also emphasizes inventory management within the retail business to ensure that they are not short of products. Rapid replenishment via the hub and spoke logistics system is imperative.

Stores will keep specific items in inventory so that there is some slack in the system, which means that the factory keeps very low levels of finished goods inventory, 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 system 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. A member of the Interior Design team 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 Inc. 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 Inc. transport on the date agreed with the customer.

The Interior Design part of the business grew from one of HW's manufacturing units developing a relationship with a local building company that consistently placed orders for custom-built kitchen units. The manager of the manufacturing unit became aware of anecdotal evidence that incorrect measurements taken by the builder's staff created problems with the fitting of the units. HW offered to provide a small team of staff to take the measurements and help with the design. This practice gradually developed into a sizable department, and the Interior Design business was born, which is now offered from all HW stores.

A8 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, the head office has been able to maintain high dividend levels for a considerable number of years. The regular dividend attracts the institutional shareholders to invest in the company due to its reliable performance. However, in 2017 the head office team decided to rationalize the company and sold some of the less profitable businesses in Europe.

This rationalization process continued into 2018 when the head office team began a strategy of reducing what they considered to be an over-sized estate by closing some of the less profitable stores. The reduced reliance on stores 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 move backfired a little. The overall sales level dropped along with the operating profit, although the company still recorded a profit.

The institutional shareholders indicated their concern, also noting the reduction in margins, which the management team explained was due to challenging trading conditions. The cash generated from the sales was used to reduce the borrowings and, consequently, the gearing level. The head office management team has historically been conservative in their decision making and has tended to rely on equity finance rather than loan capital.

The biggest concern now is that shareholders did not react very positively to the news that the profits for the year ended March 2020 showed that the company recorded the first loss in over 100 years. Coupled with covid-19, this situation will potentially continue into the next financial year unless the management team acts promptly.

The abridged forecast income statement for 2021 is shown in Table A.1, together with the reported results for 2020, 2019, and 2018. The chief executive stated in his report in the annual accounts that the continuing poor results are mainly due to 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 marketplace. The main effect of covid-19 will be felt in the financial year 2021. Some members of the head office team believe that the forecast for 2021 is optimistic and much relies on how long the lockdown in different countries affects operations.

Table A1 HW Inc. Summary Group Income statement for the year ended 31 March

	Forecast 2021 $m	**Actual 2020 $m**	**Actual 2019 $m**	**Actual 2018 $m**
Revenue	17,400.0	21,010.0	21,173.5	21,155.5
Cost of sales	(12,800.0)	(15,810.0)	(15,769.5)	(15,666.0)
Gross profit	**4,600**	**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)	**(1,000)**	**(209.0)**	**261.0**	**582.0**

A further breakdown of performance is provided in Exhibits A and B

Exhibit A – Income statement and balance sheet

HW Inc. Group Income statement for the year ended 31 March

	2020	2019	2018	2017	2016	2015	2014
	$m	$m	$m	$m	$m	$m	$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	**(167.5)**	**312.0**	**500.0**	**430.0**	**345.5**	**424.5**	**929.0**

HW Inc. Group Balance Sheet as at 31 March

	2020	2019	2018	2017	2016	2015	2014
Assets	$m	$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**

Exhibit B – HW Inc. Group - Analysis of revenue and operating profit

(Note: the manufacturing costs where relevant are included within the cost of sales of products)

Forecast outturn for the year ended 31 March 2021

	Home & Garden $m	Clothing $m	Electricals $m	Total of Products $m	Interior Design $m	Financial Services $m	Total $m
Revenue	5,500.0	2,800.0	5,300.0	13,600.0	2,700.0	1,100.0	17,400.0
Cost of sales	(4,675.0)	(2,184.0)	(3,535.0)	(10,394.0)	(1,620.0)	(786.0)	(12,800.0)
Gross profit	825.0	616.0	1,765.0	3,206.0	1,080.0	314.0	4,600.0
Net operating expenses	(1,450.0)	(952.0)	(1,973.0)	(4,375.0)	(1,050.0)	(175.0)	(5,600.0)
Operating profit	(625.0)	(336.0)	208.0	(1,169.0)	30.0	139.0	(1,000.0)
Gross profit %	15.0%	22.0%	33.3%	23.6%	40.0%	28.5%	26.4%
Operating profit %	-11.4%	-12.0%	-3.9%	-8.6%	1.1%	12.6%	-5.7%

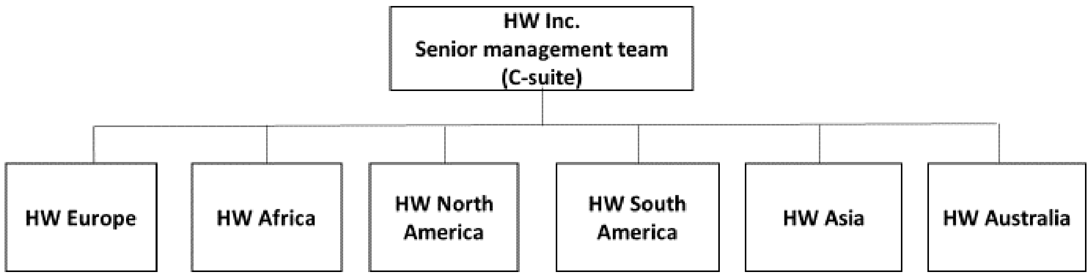
Actual performance for the year ended 31 March 2020

	Home & Garden $m	Clothing $m	Electricals $m	Total of Products $m	Interior Design $m	Financial Services $m	Total $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%

Actual performance for the year ended 31 March 2019

	Home and Garden $m	Clothing $m	Electricals $m	Total of Products $m	Interior Design $m	Financial Services $m	Total $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%

Exhibit C – HW Inc. Organization Structure



Each of the companies established in the continents has its own senior management team – they report to the HW Inc. Head Office C-suite.

Within each continent a company has been established in each country, for example, HW Spain, HW Nairobi, HW China. Each of these country companies has its own senior management team which reports to the managers of the continent company. There are 28 country subsidiary companies spread across the 6 continents.

Each subsidiary company has a divisional structure which represents the main business activities in which it is engaged

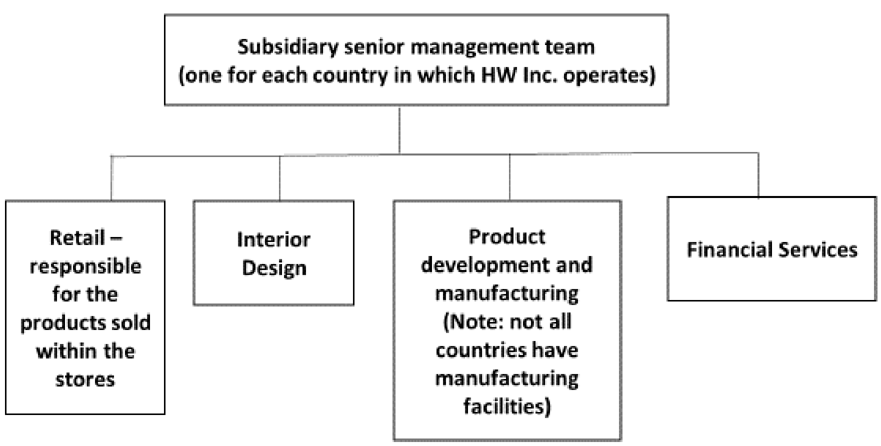


Exhibit D – HW Inc. Senior management team (C-suite)

The main supervisory board

Chairman	Sir Fred Bloggs (70) has a wealth of experience in the retail trade
Chief Executive	John Smith (55) – has worked for HW Inc. since leaving school when he began working as a retail assistant
Finance Director (VP)	Shirley Valentine (45) - qualified with the accounting firm now known as PricewaterhouseCoopers (PwC) and moved into the retail sector shortly afterward – has previous experience of the FMCG industry sector (Fast Moving Consumer Goods) – has been with HW Inc. for five years
Human Resource Director (VP)	Gloria Aleluya (50) – worked in the public sector in various HR roles until joining HW Inc. 10 years ago
Commercial Operations Director (VP)	John T.B. Snow (47) – joined HW Inc. from a significant competitor 15 years ago.
Marketing Director (VP)	Caroline Quinn (35) – has been with HW Inc. since graduating with a degree in Retail Marketing and has been a Director for the last five years
International Development Director (VP)	Huang Zu (46) – joined HW Inc. 10 years ago – holds an MBA from Harvard University and has previous retail experience.
Customer and Financial Services Director (VP)	Seema Patel (36) – joined HW Inc. six years ago and has previous experience of the financial services industry
Information Systems Director (VP)	James Onyewuchi (52) – joined HW Inc. three years ago with a remit to develop the online sales business
Group CSR Director (VP)	Angela Schapiro (35) – joined from a public sector company four years ago and has been working to increase HW Inc.'s sustainability reputation as part of its competitive advantage.
Non-executive Director (Independent member)	Major Charles de Whit (57) – Retired Army Major where he specialized in logistics
Non-Executive Director (Independent member)	Sandra Chu (49) – Works for a non-governmental organization promoting sustainable practices
Non-Executive Director (Independent member)	Abeer Al-Hajri (57) – has experience of retail in the Middle East now living in London

Non-Executive Director (Independent member)	Michael Holding (63) – has experience in the furniture business and ran his own interior design business, which he sold two years ago for $30m.
Non-Executive Director (Independent member)	Abraham Heights (67) – has retail experience
Non-Executive Director (Independent member)	Reece Jones (53) – has retail experience
Non-executive Director (Independent member)	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 Inc. since leaving school.