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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

TOP CA CASE STUDY EXAMINATION – DECEMBER 2014

THE EXAMINATION QUESTIONS, INSTRUCTIONS AND ADDITIONAL (IMPACT) INFORMATION

Instructions to candidates

(1) **Time allowed:** 4 hours

(2) **Marks:** 100 marks

(3) This question paper should be answered entirely in the **ENGLISH** language.

(4) Your answer must be submitted in the answer booklets provided at the Examination Hall.

(5) Any pre-prepared papers included in your answer WILL NOT be marked.

(6) After the instruction to stop writing at the end of the paper, you will be given five minutes to assemble your answer.

Requirement

You are Kamal Jayananda, finalist of CA Sri Lanka. Having completed a five year period (including your CA training requirement) in one of the leading conglomerates in Sri Lanka, you joined the CLG Corporate Office, KSA two months back. Your designation is Assistant Manager – Business Finance & Process Improvement and you are directly reporting to Mr. Vishal Modi CFO - Corporate Office. Considering your prior experience of working in a shared service department, Vishal requested you to assist him in addressing key priorities in CLG, KSA operations with special focus on recent failures in the Western Region.

You are required to:

Prepare an internal report as requested by Vishal in his email to you (Annexure X).

Your report should mainly cover four sections;

(i) Regaining market confidence – MaxCity to achieve budget in terms of both sales and profitability
(ii) Financial feasibility – Proposed lockbox arrangement as per the email (Annexure XV)
(iii) Re-designing the organisation structure at regional level to enhance overall profitability at KSA level, and other cost reduction measures
(iv) Overall summary of the report

You may make assumptions where applicable.

Marks allocation:

All of the marks in the Case Study are awarded for professional skills, allocated broadly as follows:

Applied to the four elements of your report	
▪ Assimilating and using information	20%
▪ Structuring problems and solutions	30%
▪ Applying judgment	25%
▪ Drawing conclusions and making recommendations	20%
	95%
Applied to your report as a whole	
▪ Demonstrating integrative and multidisciplinary skills	5%
	100%

Approximately 15% of the marks are awarded for the summary of the overall report.

In planning your report, you should be aware that not attempting any one of the requirements will have a significant effect on your chances of success. In addition, as indicated above, all four skills areas will be assessed under each of the four elements of your report. Accordingly, not demonstrating your judgment and/or failing to include appropriate conclusions and recommendations in each element of your report will affect your chances of success.

Annexure X

From: vishal.modi@centerlandgroup.com

To: kamal.jayananda@centerlandgroup.com

Subject: Key priorities – Western Region

Dear Kamal,

As already discussed with you, I am to give a presentation to Mr. Harjee (Country Head - Corporate Office, KSA) in respect of a few matters pertaining to the Western Region operations. I want you to assist me in drafting a report covering the following areas:

- MaxCity, Western Region – Analyse recent failure in actual performance as against budget and suggest initiatives to regain customer confidence and ensure delivery of budgeted results.
- Budget Initiatives for 2015 - Measures for reducing cost and achieving overall profitability targets at KSA level.
- Financial feasibility of proposed lockbox arrangement, including potential advantages and disadvantages of the project.

Though I am not going to forward your report to anybody, I will use it as a reference in preparing the presentation and in future correspondence as well.

In addition to the information provided to you earlier, I have illustrated and appended the following information for your perusal.

Overview:

Discussions are ongoing at all levels of management with regard to poor performance of the Western Region operations. For the first time in the last ten years, management was put to test in terms of its ability to deliver budgeted growth and budgeted profitability. In terms of sales, the actual performance as against the budget for the past 10 month period is very positive in both Central (Riyadh) and Eastern (Dammam) regions. However, due to unexpected negative performance in the Western Region, it is doubtful whether we can achieve the overall KSA budget for 2014. Due to increasing cost as against negative growth in sales, the net margin too has eroded. MaxCity, being the highest contributor to the overall performance of KSA operations, had performed well during the last ten years. But unexpected downturn in MaxCity's operations (mainly in Western Region) has affected overall performance of both Western Region and KSA as a whole. This year, during the Ramadan period, MaxCity was unable to achieve at least minimum target irrespective of budgeted sales set for Ramadan. Further, I am aware that there is internal competition among concepts. For example, the fashion retailing concept tries to achieve budgeted sales at the expense of MaxCity by moving to value retailing. Mr.

Mohammad Shakeel, one of the area managers – MaxCity operations, who worked with the company for more than 11 years (was with MaxCity – Western Region from its inception) has resigned two months back. I also heard that a few more key employees in the same concept have already forwarded their resignations. Further, three merchandisers working for MaxCity in the central buying department in Dubai – Head Office were asked to resign due to a buying mismatch for the ladies department. I have attached a note from the Country Head – MaxCity, KSA Operations (Annexure XI), which provides a list of reasons for below budget performance.

Budget 2015 and major initiatives to achieve the budgeted KPIs

Considering the current year performance and sales downturn in Western Region, top management at Dubai Head office level has instructed the budget for 2015 to be prepared with minimum growth rates in sales and exercising tight control over cost. One of the initiatives in respect of cost control was to consider scope for improvement in Operating Expenses (Opex) and guidelines were set as follows:

> **"Opex higher than GP growth, identification of discretionary and non-value added Opex and ways to cut them surgically**"

I have already identified a few areas in Opex for improvement at regional level as well as at corporate level. We have to think of new measures for Opex control. One of the major initiatives I have in mind is to identify common activities/processes replicating at regional level and centralising the same at corporate level to reduce the related cost. By looking at the existing organisation structure at regional level, it seems more complex. We may simplify the same to reduce the cost by eliminating a few designations. For example, we can use one Accounting/Financial reporting unit at corporate office level rather than having a separate accounts department for each region. What is your view on this? I need you to provide me an insight. Further, you may suggest more initiatives to control cost and we can propose those as KPIs for both management and staff.

I know the above information is limited in the context. You may make assumptions when information is not available.

Regards,

Vishal

Annexure XI

Note from Country Head – MaxCity, KSA Operations presented at the meeting held for 10 month performance review

At the outset let me thank you all for your continued determination and dedication to grow and build the MaxCity brand in the market and to outperform competition.

For the first time in MaxCity history, our Western Region operations recorded poor performance in terms of our ability to deliver on budgeted sales and even more on budgeted profitability. Considering the past 10 months' results, the chances that we could achieve the budgeted figures for 2014 are remote.

Besides increased supply coming from new value players entering the market, there are a number of reasons for our below budget performance which I have tried to list. By no means is the list exhaustive but I have tried to capture key points:

a. In terms of market, 79% of the concept underperformance in the past 10 month period is from Western Region, KSA. Amongst other reasons including competition, the key external factor which impacted our performance is the new labour laws which led to exodus of free visa immigrants. This along with key long term structural changes like women employment, new regulations in retail accessories, lingerie and cosmetics, led to a huge imbalance between plan and actuals. This also led to a huge buildup of stocks, high discounting of Ramadan season merchandise and consequent delay and launch of "Back to school" (sales promotion after Ramadan season) merchandise. The question is how to recoup our losses arising from this underperformance in the last 10 months; the concept will have to continuously try to balance between stock carry over, new season inflows, growing our sales and keeping our margins intact.

b. Due to supply chain disturbances as a result of various issues in the central buying department and warehouses, we were unable to supply the required items for the growing demand patterns.

c. Our internal assessment shows that there are key weaknesses in our ability to service the ladies' departments in terms of understanding market needs and tailoring our ranges to suit the market. We have found a huge difference in performance of the ladies' product range across different markets, thereby requiring us to sharpen our skills and tailor products to suit those markets.

d. In spite of all the regulatory and market challenges in our key markets, we have had tremendous success in some of our key departments, particularly in children's and men's. In the last six months, we have had continuous challenges in meeting the demand and ensuring adequate supply of merchandise in these key departments. Also within ladies, we have had a huge shift in buying pattern towards basics and category products as opposed to fashion collections. While overall ladies fashion collections' contribution to sales has shown a decline, a selective approach in understanding of the store needs is the key to growing the share of ladies fashion collections and ensuring the sell through in the department.

e. Our Ramadan sales, though far below our target, are showing signs that we could do better and achieve higher performance by ensuring higher stock availability.

f. Our analysis of product performance shows a wide divergence between our key stores and fringe stores especially in our ladies fashion ranges.

g. It is also very important to work closely between concepts and regions to ensure the right allocation of stocks to stores based on concept planning and also ensure that the initial allocation is controlled.

h. In our budget 2015, we have not planned for aggressive like-for-like (LFL) growth. We would like to use this financial year to put in place a proper system and process of understanding store trading and servicing the store in the right manner. Until now, the concept focus used to be regional trading analysis and not store trading analysis. I believe that we need to change this.

i. Lack of a customer loyalty programme specific to our concept has also resulted in reducing our existing customer base.

j. I had already spoken to regional management on the need to compete in the marketplace through store focus and understanding how we should improve the footfalls and ATV, especially where new competition has entered the market or there are challenges due to an oversupply situation in the market.

I have listed the above reasons including some key initiatives we need to take to achieve our budgeted growth and profitability in the next financial year. I am sure each one of you would like to share ideas to bring up the stores and departments which are degrowing and suggest steps to be taken to aggressively grow the departments where we see higher trade potentials, improve footfalls and ATV, improve launches and stock availability, reduce mark down etc.

I believe all of us from different teams viz buying, planning, sourcing, design, operations, finance, HR etc. would be able to work together closely to suggest initiatives and make our concept sustainable for the future.

Annexure XII

Western Region, KSA

Profit & loss statements
Amounts in Saudi Riyal (millions)

	MaxCity Only		Total - Western Region		Total - Western Region		Total - Western Region	
Particulars	**FY 2014 - YTD**		**FY 2014 - YTD**		**FY 2013**		**FY 2012**	
Sales	735.2	100.0%	3,365.4	100.0%	3,169.4	100.0%	2,511.7	100.0%
Less :- Cost of Sales	499.9	68.0%	2,086.5	62.0%	1,869.9	59.0%	1,456.8	58.0%
Gross Profit	**235.3**	**32.0%**	**1,278.9**	**38.0%**	**1,299.5**	**41.0%**	**1,054.9**	**42.0%**
Staff Costs	90.4	12.3%	437.5	13.0%	342.3	10.8%	226.1	9.0%
Owner's Remuneration	0.0	0.0%	168.3	5.0%	158.5	5.0%	125.6	5.0%
Rent	38.9	5.3%	212.0	6.3%	136.3	4.3%	100.5	4.0%
Administrative Expenses	40.4	5.5%	235.6	7.0%	164.8	5.2%	105.5	4.2%
Selling & Promotion Expenses	24.3	3.3%	134.6	4.0%	95.1	3.0%	75.4	3.0%
Total Operating Expenses	**194.0**	**26.4%**	**1,188.0**	**35.3%**	**897.0**	**28.3%**	**633.1**	**25.2%**
Operating Profit	**41.3**	**5.6%**	**90.9**	**2.7%**	**402.5**	**12.7%**	**421.8**	**16.8%**
Interest & Fin. Charges - Local	3.0	0.4%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Interest & Fin. Charges - Corporate	0.0	0.0%	9.0	0.3%	9.0	0.3%	9.0	0.4 %
Cash Profit	**38.3**	**5.2%**	**81.9**	**2.4%**	**393.5**	**12.4%**	**412.8**	**16.4%**
Depreciation / Pre-operative	28.3	3.8%	58.3	1.7%	58.3	1.8%	58.3	2.3%
Other Debits & Credits	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Misc. (Income) / Expenditure	-2.0	-0.3%	-8.0	-0.2%	-5.0	-0.2%	-4.0	-0.2%
Net Profit from Operations	**12.0**	**1.7%**	**31.6**	**0.9%**	**340.2**	**10.8%**	**358.5**	**14.3%**
Total Overheads Excluding Taxes	***223.3***	***30.4%***	***1,238.3***	***36.8%***	***950.2***	***30.0%***	***687.2***	***27.4%***

FY - Financial Year
YTD - Year to Date (for 10 month period)

Annexure XIII: Composition of total sales for 10 months YTD FY 2014

Western Region, KSA
Currency - Saudi Riyal (millions)

Concept/Brand	**YTD FY 2014**
Shop4Baby	667.96
Flash4Fashion	789.57
MartShoe	299.16
LandHome	519.21
Total PointLand Concepts (Core Concepts)	2,275.90
MaxCity	735.21
Other brands including agency sales	354.28
Total - Western Region	3,365.39

Annexure XIV

MIS Report: Stock

Concept: MaxCity - Western Region, KSA

FY 2014 - Actual/Estimate

Month	**Stock value (SR millions)**	**Average stock holding period (months)**	**Stock Age**					
			< 3 Mths	**3 - 6 Mths**	**6 - 12 Mths**	**1 - 1.5 Yrs**	**1.5 - 2 Yrs**	**> 2 Yrs**
JAN	214.23	5.61	56.98%	21.80%	17.65%	3.04%	0.31%	0.21%
FEB	230.18	5.73	54.70%	20.97%	20.89%	2.91%	0.34%	0.20%
MAR	210.31	4.14	41.15%	28.75%	25.28%	4.04%	0.59%	0.20%
APR	207.54	3.68	34.11%	29.55%	30.19%	4.91%	0.97%	0.27%
MAY	218.87	4.32	49.20%	30.00%	17.00%	3.20%	0.40%	0.20%
JUN	210.07	4.14	63.90%	21.00%	11.50%	3.00%	0.30%	0.30%
JUL	198.29	4.72	70.73%	12.34%	13.70%	2.20%	0.60%	0.43%
AUG	204.07	5.33	72.20%	12.14%	13.14%	1.73%	0.48%	0.31%
SEP	212.73	5.40	78.84%	10.05%	9.27%	1.42%	0.25%	0.18%
OCT	209.58	5.91	68.83%	18.71%	9.25%	2.73%	0.27%	0.22%
NOV	210.04	5.75	56.53%	29.03%	9.37%	4.48%	0.37%	0.22%
DEC	231.72	6.56	57.98%	24.98%	11.41%	5.01%	0.36%	0.26%

Annexure XV – Extract of email re. lockbox arrangement

From: GMfinancewr@centerlandgroup.com

To: Undisclosed recipients

CC: ………

Subject: Lockbox arrangement

Post our communication of acceptance of their last offer of SR 9,000 per month for 50+ lockboxes, the bank has come back stating that they won't be able to offer the last slab of 50+ lockboxes at the initial agreed price of SR 9,000. In addition there is an increase of about SR 800 in their slab for 21-50 boxes.

In view of no other options in the market currently, we will be accepting this offer with commitment to order only 21-50 lockboxes (subject to confirmation by the Corporate CFO). As other players emerge in the market, we will have necessary tie-ups with them as well.

Based on this pricing, we will restrict the number of lockboxes to a maximum of 50. In selecting the locations, the order of priority should be from area D to area A. This will be considered as a pilot project and will be evaluated for performance and service during the first two years. Depending on the results of the evaluation, the management will decide whether to increase the lockboxes or discontinue the service.

Regards,

Ranjan Krishanthan

GM – Finance, Western Region