

# ACA MASTERS

July 2021: Advance Information (AI) Analysis

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Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points
1	Intro	Title	<p>Jules Wingate, external advisor at Quiller on secondment at House Pride Limited (HP).</p> <p>Reporting to Amanda Ellis - Finance Director.</p> <p>No disclaimer needed.</p> <p>HP supplies building materials and home improvement products to regional housebuilders (RH), building contractors and tradespeople (BCT) across the north-west of England.</p>

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Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points	Key Numerical Points
2	Industry Background	Wider Context	<p>Large and diverse industry with recent M&amp;A activity.</p> <p>Need for companies to:</p> <ul style="list-style-type: none"> <li>○ focus on core strengths</li> <li>○ focus on customer requirements</li> <li>○ gain economies of scale</li> <li>○ meet online threat (COL)</li> </ul> <p>CMA:</p> <ul style="list-style-type: none"> <li>○ forced enterprises to sell outlets</li> <li>○ investigated pricing practices</li> </ul> <p>Merchants: intermediary between manufacturers and users of products (trade/personal).</p> <p>Some sell to trade and personal. Some sell to trade only (HP).</p> <p>Trade customers: regional housebuilders, property developers, building contractors, plumbers, decorators, roofers, electricians, other retailers.</p> <p>Merchants seek to become sole/preferred supplier to regional housebuilders and property developers.</p> <p>Managing relationships with major trade customers is crucial:</p> <ul style="list-style-type: none"> <li>○ high quality</li> <li>○ efficient delivery</li> <li>○ competitive prices</li> </ul> <p>Sales made physically and increasingly online (HP shift to online).</p> <p>Products sold by merchants:</p> <ul style="list-style-type: none"> <li>○ basic construction materials (bricks, cement, sand, gravel etc)</li> <li>○ windows, doors and frames</li> <li>○ small tools (screwdrivers, drills)</li> <li>○ flooring</li> <li>○ interior fittings and materials (nails, screws, paints)</li> </ul>	<p>Need for economies of scale.</p> <p>Trade customers receive discounts as purchase frequently and in bulk.</p> <p>Most sales are on credit.</p> <p>Many merchants have poor working capital management and use borrowings (short and long term).</p>

			<p>Some merchants have specialist outlets for:</p> <ul style="list-style-type: none"> <li>○ plumbing supplies (Ridley Plumbing - Liverpool)</li> <li>○ garden equipment</li> <li>○ bathroom fixtures</li> <li>○ kitchens</li> <li>○ lighting and other fixtures</li> </ul> <p>Some merchants operate DIY outlets.</p> <p>Inventory management is key challenge (HP ERP Phase 1):</p> <ul style="list-style-type: none"> <li>○ technology is invaluable</li> <li>○ control, pricing and ordering ensure product availability</li> <li>○ storage and security</li> <li>○ location near customers and roads reduces holding costs</li> </ul> <p>Suppliers:</p> <ul style="list-style-type: none"> <li>○ many product lines require many suppliers (HP)</li> <li>○ some only supply a few lines</li> <li>○ checks to ensure suppliers meet standards for working conditions, quality and eco-friendliness (HP)</li> </ul> <p>Sites require substantial storage and distribution facilities, customer access areas and showrooms.</p> <p>Some merchants run their own distribution networks (HP has own fleet of vehicles).</p> <p>Technological innovation:</p> <ul style="list-style-type: none"> <li>○ improve efficiency and cut costs</li> <li>○ supply chain management</li> </ul> <p>ERP:</p> <ul style="list-style-type: none"> <li>○ software that streamlines activities and processes</li> <li>○ collates structured data to aid the management of sales orders, finance, production, supply chain and customer relationships</li> <li>○ improves demand forecasting and inventory management</li> <li>○ helps to avoid stockouts</li> <li>○ develop own ERP or install supplier's system</li> </ul>	<p>Substantial inventory held:</p> <ul style="list-style-type: none"> <li>○ several thousand lines</li> <li>○ several million pounds</li> <li>○ extensive inventory count and valuation</li> </ul> <p>Capital outlay for site is substantial:</p> <ul style="list-style-type: none"> <li>○ fixtures</li> <li>○ security</li> <li>○ IT</li> </ul> <p>Increasing capex on technology (HP ERP project).</p> <p>HP: £450k revenue increase due to less stock-outs</p>
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			<p>E-commerce:</p> <ul style="list-style-type: none"> <li>○ alternative channel for customers</li> <li>○ counters threat from manufacturers selling direct to contractors</li> <li>○ reduces the need for large branches</li> <li>○ requires central warehouses (HP uses Warrington)</li> <li>○ some businesses only sell online (COL)</li> <li>○ requires eye-catching graphics, product descriptions and reviews, interactive features</li> </ul> <p>Click-and-collect (C&amp;C) reduces distribution costs, shortens delivery times and improves inventory turnover.</p>	<p>HP has 4 branches which have C&amp;C as at 30.06.20</p>
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3	Industry Background	Wider Context	<p><b>Revenue</b></p> <p>Industry depends directly on trends in construction and home improvement (sectors representative of wider economy).</p> <p>Short-term boosts increase demand e.g. legislation giving incentives to property buyers.</p> <p>Growing emphasis on sustainability and energy efficiency also creates additional demand.</p> <p>Weather impacts activity (warm weather is beneficial).</p> <p>Government policy to increase the supply of homes increases demand.</p> <p>Growth in personal home improvement expenditure increases demand.</p> <p>Trends continued in 2020, despite economic downturn.</p> <p>Construction industry has been relatively unaffected by the downturn.</p> <p>Regional variation: north-west has seen steady growth in construction.</p>	

			<p><b>Costs</b></p> <p>Buying groups:</p> <ul style="list-style-type: none"> <li>○ small/medium sized merchants coming together to achieve economies of scale and compete against national chains</li> </ul> <p>Advantages:</p> <ul style="list-style-type: none"> <li>○ volume discounts</li> <li>○ single monthly payment</li> <li>○ reduce price volatility</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>○ short credit periods</li> <li>○ strict payment terms</li> <li>○ constraint on business activities</li> </ul> <p>HP not part of buying group but would consider joining</p> <p>Staff:</p> <ul style="list-style-type: none"> <li>○ polite and knowledgeable staff required to deliver high-quality service</li> <li>○ automation resulting in redundancies (ERP Project)</li> </ul> <p>Transport and distribution:</p> <ul style="list-style-type: none"> <li>○ in-house or outsource</li> <li>○ distribution becoming even more critical due to increase in online sales</li> <li>○ delivery time is a key factor for customers</li> </ul>	<p><b>Costs</b></p> <p>Goods for sale: 70% of revenue.</p> <p>CMPIs:</p> <ul style="list-style-type: none"> <li>○ measures inflation in industry</li> <li>○ when high, cost increases cannot easily be passed on to customers</li> <li>○ puts pressure on margins</li> <li>○ risen in most of past 5 years</li> <li>○ expected to rise in 20-21</li> </ul> <p>NMBS:</p> <ul style="list-style-type: none"> <li>○ largest UK buying group</li> <li>○ over 1,000 merchants with over 3,100 branches</li> </ul> <p>Payroll: 15% of revenue.</p>
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4	Company	All Requirements	<p>HP: one of the oldest and largest merchants in north-west of England.</p> <p>Head office (HO) and large warehouse situated on Warrington branch site. Inventory for online sales (including C&amp;C) taken from Warrington warehouse.</p> <p>Branches are roughly of equal size.</p> <p>Gradual opening of new branches in Jan or July, pace seems to have accelerated in recent years. No plans for new branches.</p> <p>B2B sales only:</p> <ul style="list-style-type: none"> <li>○ RH: Regional Housebuilders</li> <li>○ BCT: Building Contractors and Tradespeople</li> </ul> <p>2 sales channels:</p> <ul style="list-style-type: none"> <li>○ online (growing fast)</li> <li>○ branches</li> </ul> <p>Prices are the same (before discounts)</p> <p>Distribution:</p> <p>Branch sales</p> <ul style="list-style-type: none"> <li>○ large orders delivered by HP</li> <li>○ small orders collected by customer</li> </ul> <p>Online sales</p> <ul style="list-style-type: none"> <li>○ all orders delivered (except C&amp;C)</li> </ul>	<p>Thousands of product lines.</p> <p>8 branches across 4 areas of north-west: Lancashire, Merseyside, Greater Manchester and Cheshire.</p> <p>RH: 80% of revenue.</p> <p>Online sales have higher GPM due to less staff costs.</p> <p>Difficult to allocate staff costs between branch and online so no COS or GP analysis by channel.</p> <p>C&amp;C sales are treated as part of online.</p> <p>C&amp;C sales will be allocated to branches when all branches have C&amp;C facilities. 4 branches have C&amp;C as at 30.06.20.</p>



			<p><b>Branch                      Opening date</b></p> <p>Preston                      1 July 1999</p> <p>Bury*                        1 January 2002</p> <p>Blackburn                   1 January 2006</p> <p>Burnley                      1 July 2010</p> <p>Wigan                        1 July 2014</p> <p>Bolton                        1 January 2016</p> <p>Manchester                1 July 2017</p> <p>Liverpool                    1 January 2019</p> <p><b>*Bury closure:</b></p> <ul style="list-style-type: none"> <li>○ closed 31.12.16</li> <li>○ due to poor trading</li> <li>○ performance never recovered after fire in 2013</li> <li>○ inventory and PPE transferred to other branches</li> <li>○ where not possible to transfer, inventory sold for 50% of normal sales price and PPE sold for £0</li> <li>○ staff redeployed to other branches or head office</li> <li>○ closure costs were £100k, including £40k loss on PPE disposal</li> </ul> <p><b>Directors</b></p> <p>Emily Hanwell – CEO</p> <p>Amanda Ellis – Finance</p> <p>Ross Connor – Sales and Marketing</p> <p>Wei Li – Purchasing and Inventory</p> <p>Hans Ritz – IT</p>	<p>Inventory sold for 50% of normal sales price</p> <p>PPE sold for £0</p> <p>£60k closure costs</p> <p>£40k loss on disposal</p>
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REVENUE	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
<b>RH</b>						
Branch	15,535	14,834	701	4.7%	All branches closed in June (busy month) Reopened 01.07.20	2019: 15.8%
Online	7,633	6,241	1,392	22.3%	C&C available from 4 branches	Growth accelerating 2019: 19.5%
Total	<b>23,168</b>	<b>21,075</b>	<b>2,093</b>	<b>9.9%</b>	9m to 31.03.20: new customers and strong revenue growth from some existing customers Construction projects continued Elevant: fast-growing housebuilder with promise of steady work (£1m annually) Wrights: sole supplier (£800k for 9m to 30.06.20) Government house building subsidies 10% trade discount	
Mix:						
Branch	67.1%	70.4%			All branches closed in June (busy month)	
Online	32.9%	29.6%				Increasing importance 2018: 29.0%
<b>BCT</b>						
Branch	4,944	5,650	(706)	(12.5%)	All branches closed in June (busy month) Reopened 01.07.20 5% discount if minimum monthly spend met	2019: 15.7%
Online	1,442	1,019	423	41.5%	C&C available from 4 branches	Online platform for BCT launched in 2018 2019: 114.5%
Total	<b>6,386</b>	<b>6,669</b>	<b>(283)</b>	<b>(4.2%)</b>	9m to 31.03.20: new customers and strong revenue growth from some existing customers Brief pause in homeowner refurbishments Higher portion of branch sales compared with RH Over 50% from members of NWFT Emily Hanwell is close friend of newspaper editor	2019: 24.5%
Mix:						
Branch	77.4%	84.7%			All branches closed in June (busy month)	
Online	22.6%	15.3%				Increasing importance 2018: 8.9%
<b>Total</b>						
Branch	20,479	20,484	(5)	0%	All branches closed in June	2019: 15.7%
Online	9,075	7,260	1,815	25.0%	Lost £600k due to online systems issues Online sales system slower and less efficient than competitors	2019: 27.4%
Total	<b>29,554</b>	<b>27,744</b>	<b>1,810</b>	<b>6.5%</b>	Fewer stockouts added £450k to revenue Poor weather in July and August only had minor impact on performance 50% of sales are typically made in 4m period March-June when most housebuilding and refurbishments start	Missed 30.06.20 £30m target due to economic downturn  2019: 18.6% was considerably above industry norms
Mix:						
RH	78.4%	76.0%				RH has lower GPM due to trade discount
BCT	21.6%	24.0%				
Mix:						
Branch	69.3%	73.8%				
Online	30.7%	26.2%				Increasing importance 2018: 24.4% Online sales have higher GPM due to less staff costs

<b>Branches</b>						
Warrington	2,970	3,021	(51)	(1.7%)	Refurb in Jan 19: £150k combined cost	C&C; refurb improved performance
Preston	2,457	2,491	(34)	(1.4%)	Refurb in Jan 19: £150k combined cost	C&C; refurb improved performance
Blackburn	3,168	3,399	(231)	(6.8%)	Refurb in Jan 20: £120k combined cost	C&C
Burnley	2,860	3,071	(211)	(6.9%)	Refurb in Jan 20: £120k combined cost	C&C Worst performing (refurb closure)
Wigan	2,101	2,249	(148)	(6.6%)	Refurb in Jan 21?	2019: Strengthening mgt team and inventory control produced rapid results
Bolton	2,565	2,686	(121)	(4.5%)	Refurb in Jan 21?	
Manchester	2,513	2,594	(81)	(3.1%)		Opened 01.07.17 More user friendly than Bury Better location and configuration due to market research Strong regional profile provided marketing £2m in first 12m
Liverpool	1,845	973	872	89.6%		Opened 01.01.19 £973k in first 6m
	<b>20,479</b>	<b>20,484</b>	<b>(5)</b>	<b>0%</b>	Branches are roughly of equal size Plans to open new branches on hold Refurbs will continue May reduce size of some branches if online trend continues C&C may be expanded to new locations New storage facilities may be built	All branches except Liverpool declined <u>Refurbs:</u> Notice of closure Redirect customers Transfer inventory Little impact on business overall
<b>Mix:</b>						
Warrington	14.5%	14.7%				
Preston	12.0%	12.2%				
Blackburn	15.5%	16.6%				
Burnley	14.0%	15.0%				
Wigan	10.3%	11.0%				Smallest (excluding Liverpool)
Bolton	12.5%	13.1%				
Manchester	12.3%	12.7%				
Liverpool	9.0%	4.8%				
<b>Average branch revenue per month</b>						
Branch revenue	20,479	20,484				
÷ Months open total	86	88			2020 (6 x 11m; 2 x 10m) 2019 (5 x 12m; 2 x 11m; 1 x 6m)	
= Average branch revenue per month	238.1	232.8	5	2.3%	Due to less months open, not revenue growth	Growth slowing (2018: 210.7)

COST OF SALES	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
RH	19,493	17,681	1,812	10.2%	Increasing faster than revenue despite shift to online: GPM decrease	
BCT	4,402	4,598	(196)	(4.3%)		
<b>Total</b>	<b>23,895</b>	<b>22,279</b>	<b>1,616</b>	<b>7.3%</b>	Increased online increases efficiencies	
Goods and materials	19,762	18,575	1,187	6.4%	Increase in scale helps obtain better supplier terms Costs can increase without warning due to commodity price fluctuation CMPI expected to rise in 20-21 Inventory impairment: £135k	
Wages	4,133	3,704	429	11.6%	Customer-facing staff: branch, warehouse and e-commerce Online sales have less staff costs Disruption and re-training £80k incentive scheme	
<b>Total</b>	<b>23,895</b>	<b>22,279</b>	<b>1,616</b>	<b>7.3%</b>		
<u>As % of revenue</u>						
Goods and materials	66.9%	67.0%				Industry average: 70% of revenue
Wages	14.0%	13.4%				Industry average: 15% of revenue
Mix:						
Goods and materials	82.7%	83.4%				
Wages	17.3%	16.6%				

GROSS PROFIT/GPM	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
RH	3,675	3,394	281	8.3%		
BCT	1,984	2,071	(87)	(4.2%)		
<b>Total</b>	<b>5,659</b>	<b>5,465</b>	<b>194</b>	<b>3.5%</b>		
RH	15.9%	16.1%			COS increasing faster than revenue	2018: 15.2%
BCT	31.1%	31.1%				2018: 30.5%
<b>Total</b>	<b>19.1%</b>	<b>19.7%</b>			Disruption due to altered operational model Re-training of staff Increased online increases efficiencies Revenue mix shift towards lower margin RH decreases GPM due to 10% trade discount Revenue mix shift towards online sales increases GPM due to less staff costs Increase in scale helps obtain better supplier terms	2018: 18.7%

DISTRIBUTION COSTS	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Distribution	2070	1825	245	13.4%	Packaging, vehicle running costs (fuel), repairs, driver wages Online sales (except C&C) increases cost ERP system reduced costs Larger number of smaller orders causes costs to rise	
As % of revenue	7.0%	6.6%				Goal to reduce ratio

ADMIN EXPENSES	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Personnel	1,418	1,208	210	17.4%	Staff recruitment and training Director salaries: £694k	
IT, premises, depreciation and other	1,619	1,558	61	3.9%	Receivables impairment: £31k	
Marketing and advertising	289	250	39	15.6%	Social media, TV, radio, trade publications Sponsorship of industry events and local sports teams Reduced advertising rates towards end of year Annual subscriptions to trade bodies	
	<b>3,326</b>	<b>3,016</b>	<b>310</b>	<b>10.3%</b>	Online shift caused increased costs ERP system reduced costs	
As % of revenue	11.3%	10.9%				Goal to reduce ratio

OPERATING PROFIT/OPM	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
OP	263	624	(361)	(57.9%)		
OPM	0.9%	2.2%				2018: 1.6%

CASH	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Cash	227	10				
Overdraft	0	(266)				
<b>TOTAL</b>	277	(256)	483		Reduced Capex	

PAYABLES	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Trade	3,583	3,128	455	14.5%		
Other	767	657	110	16.7%		
<b>TOTAL</b>	4,350	3,785	565	14.9%		
Days	66.2	61.5	4.7		Calculated using goods and materials	Increase: good for cash

INVENTORY	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Inventory	2,020	1,861	159	8.5%	Some product lines moving slowly	
Days	37.3	36.6	0.7		Calculated using goods and materials	Increase: bad for cash

RECEIVABLES	2020 (£k)	2019 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Trade	3,009	2,723	286	10.5%		
Other	334	324	10	3.1%		
<b>TOTAL</b>	3,343	3,047	296	9.7%		
Trade days	37.2	35.8	1.4		30 days credit for RH and BCT: varied in exceptional cases Declining revenue at end of year IT systems show red flag when 60/90 days overdue Some customers falling into difficulties	Increase: bad for cash

Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points	Key Numerical Points
7	Business Operations	Throughout  R2/R3	<p>HP prides itself on selling quality products at competitive prices.</p> <p><b>Products</b> Bricks, sand, cement, gravel, timber, roof tiles, windows, doors and frames, flooring, nails and screws, paints, adhesives, tiles, fencing.</p> <p>Does not sell sanitaryware or kitchens as does not believe it can compete on price with specialists.</p> <p>Inventory held at branches and Warrington HO warehouse.</p> <p>Wei Lei's (Purchasing and Inventory) team maintain records of:</p> <ul style="list-style-type: none"> <li>○ products sold</li> <li>○ monthly sales value and volume</li> <li>○ inventory levels</li> </ul> <p>Ensures HP obtains best prices from suppliers.</p> <p><b>Customers</b> All customers located in north-west of England.</p> <p>Ross Connor's (Sales and Marketing) team win new business:</p> <ul style="list-style-type: none"> <li>○ Head of RH: Bill Travers</li> <li>○ Head of BCT: Des O'Reilly</li> <li>○ aim to form durable relationships with customers</li> <li>○ excellent customer service: Get It Right Now! (GIRN)</li> <li>○ January awards for outstanding customer service</li> <li>○ all major customers have a HP Account Manager</li> <li>○ monthly/quarterly data on customer spend</li> </ul> <p>Branch staff have technical expertise.</p> <p>Free monthly workshops at branches/online to show how to use products.</p>	50% of sales are typically made in 4m period March-June when most housebuilding and refurbishments start.

		<p><b>Branches</b> Situated in industrial parks.</p> <p>Liverpool site acquired jointly with Ridley Plumbing and led to cross referrals.</p> <p>HP and Ridley offer each other trade discounts.</p> <p>All staff trained to work on shopfloor and loading/unloading goods (except accounting and admin staff).</p> <p><b>Online</b> E-commerce needs updating for online growth (ERP project).</p> <p>Customer dissatisfaction and social media posts.</p> <p>Exposed to data breaches.</p> <p>Inventory for online sales (including C&amp;C) taken from Warrington warehouse.</p> <p><b>Distribution</b> Vast majority of products delivered to customers' premises or construction sites.</p> <p>Rise in C&amp;C resulting in more being collected from branches.</p> <p>Large, flexible and reliable fleet of vehicles with qualified drivers.</p> <p>Gradually replacing all vehicles, with electric models where possible (cost savings).</p> <p>Delivery charge being reviewed as cost may outweigh customer attraction.</p> <p>Some competitors use sliding scale for all deliveries.</p> <p>30-day return policy for unused products. Few returns are made.</p> <p>Usually due to a production fault so batch is returned to manufacturer for full refund.</p> <p>Manufacturer product recall: HP works with manufacturer to track all items which have been sold and are in inventory.</p>	<p>Around 15 staff per branch:</p> <ul style="list-style-type: none"> <li>○ Manager</li> <li>○ Assistant Manager</li> <li>○ 2 accounting and admin</li> <li>○ 11 others</li> </ul> <p>2020: 50% of IT outages related to e-commerce 2019: 20%</p> <p>Lost revenue: £600k</p> <p>C&amp;C: no charge</p> <p>Orders &gt;£100: free delivery Orders &lt;£100: charge</p> <p>Delivery: within 48 hours 4-hour time-slot</p> <p>Deliveries on time: Target: 95% 2020: 94% 2019: 92% 2018: 91%</p> <p>Late delivery refund: Delivery charge + 5% of order value</p>
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			<p><b>Staff</b> Staff development and retention are key.</p> <p>Twice-yearly appraisal process to identify training requirements.</p> <p>Promotion structure for exceptional performance.</p> <p>Most branch managers were promoted internally.</p> <p>Does not use recruitment agencies.</p> <p>Employees encourage to report inappropriate behaviour.</p> <p>Website: Modern Slavery Policy and Equal Opportunities Policy.</p> <p><b>Pricing</b> RH customers undergo rigorous due diligence and acceptance procedures before qualifying for discount.</p> <p><b>Health and safety/environment</b> Safety of staff, customers and visitors is paramount.</p> <p>Website: Health and Safety Policy</p> <p>Staff induction and top-up training.</p> <p>Review of policy and risk assessment annually.</p> <p>Regular branch inspections.</p>	<p><b>RH:</b> 10% discount on branch and online prices Any volume/value</p> <p><b>BCT:</b> 5% discount on branch prices Minimum monthly spend</p> <p>Higher GPM for BCT customers as less discount</p> <p>RH and BCT: 30 days credit Varied in exceptional cases</p>
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			<p><b>Environment and Sustainability Policy</b>  Comply with environmental regulations and best practice:</p> <ul style="list-style-type: none"> <li>○ vehicle emissions satisfactory</li> <li>○ hazardous products stored safely</li> <li>○ community consultation re: new branches</li> <li>○ energy efficient processes</li> </ul> <p><b>Marketing and advertising</b></p> <ul style="list-style-type: none"> <li>○ social media, TV, radio, trade publications</li> <li>○ sponsors industry events and local sports</li> <li>○ subscriptions to trade bodies</li> </ul> <p>Professional accreditations.</p> <p>Supplier of The Year from Orko.</p> <p><b>Charity and community</b>  Supports charitable and community ventures in the north-west.</p> <p>Staff spend 2 days each year assisting on community projects.</p>	
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Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points	Key Numerical Points
8	Customers	Throughout  R2/R3	<p><b>Elevant (housebuilder)</b>            RH customer since 2018            Small flats to large family houses            Reputation: innovative, sustainable design, high-quality construction            Uses several suppliers            HP advertised as partner in flagship new development</p> <p><b>Wrights (builder for serviced offices)</b>            RH customer since September 2019            Sole supplier            Previous supplier (Brickbuild) went bankrupt            Wrights needed supplier urgently            First time HP supplied builder of commercial properties            Increase in WFH could reduce future work</p> <p><b>Orko (builder of care homes in the north-west)</b>            Uses several suppliers            Uses Ridley Plumbing for sanitary and heating            Care homes of equal size            HP won Supplier of The Year from Orko            Niche sectors growing: properties for the elderly            Plans to expand via acquisition of Dolphino (retirement village developer)  <u>Antoine:</u>            Uses several suppliers for initial development and ongoing repairs            Opened villages late so bank put pressure on Antoine to delay supplier payments</p> <p><b>Members of NWFT (North-West Federated Tradespeople)</b>            Tradespeople involved in renovating and refurbishing properties            Encourages members to be eco-friendly            Members have Trusted Local Traders (TLT) logo            Members frequently recommend HP to others</p>	<p>&gt;£1m revenue per annum</p> <p>£800k for 9m to 30.06.20</p> <p>Average value of supplies: £400k</p> <p>Over 50% of BCT business comes from members of NWFT</p>

Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points	Key Numerical Points
9	IT Systems	Throughout  R2/R3 Calculation	<p>Time wasted resolving outages, although most outages are minor.</p> <p>Some systems and applications are dated so are slower and less efficient than competitors.</p> <p>Gradually replacing older systems.</p> <p>Commitment to more efficient working and enhanced customer service which will enable better integration and data analysis.</p> <p><b>ERP Project</b></p> <ul style="list-style-type: none"> <li>○ 3 phases</li> <li>○ transform digital capability</li> <li>○ save time and cost</li> <li>○ integrated platform for e-commerce, finance, production, suppliers, customers</li> <li>○ separate bidding process for each phase</li> </ul> <p>Phase 1:</p> <ul style="list-style-type: none"> <li>○ started 01.07.19</li> <li>○ new inventory management system</li> <li>○ flags when a product is running low, reorders automatically or generates a purchase authorisation</li> <li>○ sales data</li> <li>○ 1-month parallel run</li> <li>○ automated invoicing</li> <li>○ QR codes to delivery documents</li> <li>○ paperless document management</li> </ul> <p>Phase 2:</p> <ul style="list-style-type: none"> <li>○ start after 30.06.21</li> <li>○ finished by 30.06.22</li> <li>○ new website and e-commerce facility</li> <li>○ reduced admin for online sales</li> <li>○ better management information</li> </ul> <p>Phase 3:</p> <ul style="list-style-type: none"> <li>○ start after 30.06.22</li> <li>○ finished by 30.06.23</li> </ul> <p>Phase 2 and 3:</p> <ul style="list-style-type: none"> <li>○ account portal</li> <li>○ CRM system</li> <li>○ supplier platform</li> <li>○ accounting system</li> <li>○ route management system</li> </ul>	<p><u>Outages</u></p> <p><b>2020:</b> 273 (50% e-commerce related) £600k lost revenue</p> <p><b>2019:</b> 139 (20% e-commerce related)</p> <p><b>2018:</b> 77</p> <p>Higher than other merchants.</p> <p>Fewer stockouts added £450k of revenue (v £600k expectation).</p> <p>Cost savings higher than expected.</p> <p>Could reduce receivables days by making payment easier.</p> <p>Could save distribution costs and reduce late delivery refunds.</p>

		<p><b>IT investment decision making</b></p> <ol style="list-style-type: none"> <li>1. Internal project team</li> <li>2. Scope and timetable (including testing/parallel runs)</li> <li>3. Budget</li> <li>4. Specification for suppliers</li> <li>5. Seek potential suppliers: <ul style="list-style-type: none"> <li>- 2-3 quotes; 24hr maintenance; post-implementation changes at agreed price</li> </ul> </li> <li>6. Review quotes <ul style="list-style-type: none"> <li>- Financial criteria: incremental profits; payment terms</li> <li>- Non-financial criteria: support, items included, flexibility, parallel run time</li> </ul> </li> <li>7. Communicate launch date/training</li> <li>8. Reviews, feedback and changes</li> </ol> <p><b>Phase 1 Quotes</b></p> <p>Albion</p> <ul style="list-style-type: none"> <li>○ media reports of financial difficulties</li> <li>○ high capital cost and low running cost</li> <li>○ 90% of capital cost paid upfront</li> <li>○ might not provide required day-to-day support</li> <li>○ included items HP did not require</li> <li>○ 2-month parallel run</li> </ul> <p>Grossmark (<b>selected provided</b>)</p> <ul style="list-style-type: none"> <li>○ good staff knowledge</li> <li>○ flexibility for design change</li> <li>○ intuitive systems</li> <li>○ higher revenue</li> <li>○ less cost reduction as same level of admin support needed</li> <li>○ benefit remains after initial period</li> <li>○ 1-month parallel run</li> </ul> <p>Zenith</p> <ul style="list-style-type: none"> <li>○ higher ongoing costs</li> <li>○ uncertainty whether included all relevant items</li> <li>○ rumours of hidden costs</li> <li>○ 3-month parallel run indicated Zenith not confident</li> <li>○ annual costs saving based on staff reductions and not clear how this would be achieved</li> <li>○ HP reluctant to lose staff</li> </ul> <p>Process was helpful and ensured smooth running on Phase 1.</p>	<p><b>Assumptions:</b></p> <p>Revenue: £500k-£1.2m pa Actual was lower: £600k v £450k</p> <p>GPM: 20% Actual: 19.1%</p> <p>Capital costs: £180-£240k Actual: as per quote 3yr UEL</p> <p>Maintenance and support: £30-60k pa Actual: as per quote</p> <p>Cost savings: £60-120k pa Actual: higher</p> <p>Delivery costs: 6% of revenue Actual: 7%</p> <p>Costs of subsequent changes were as agreed</p>
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			<p>Problems with maintenance as Grossmark not always able to attend within 2-hour window due to 'staffing issues'.</p> <p>Option for renewal 01.07.22</p> <p><b>Security</b> Data protection and systems security are critical:</p> <ul style="list-style-type: none"><li>○ cloud-based back-up</li><li>○ TopTech checks usage and unauthorised access</li><li>○ Privacy Policy, encryption, passwords</li><li>○ customer warnings re: fraud</li><li>○ new IT providers must demonstrate their systems comply fully with HP procedures</li></ul>	
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Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points	Key Numerical Points
10	Suppliers	Throughout  R2/R3	<p>Main items that HP buys are the products that it sells to its customers.</p> <p>All UK: some several hundred km away.</p> <p><b>Due Diligence</b> Due diligence on new larger suppliers:</p> <ul style="list-style-type: none"> <li>○ financially stable</li> <li>○ treat employees fairly</li> <li>○ product quality and safety</li> <li>○ sustainability: products, energy, delivery</li> </ul> <p>Due diligence performed twice yearly. General monitoring of supplier performance. Challenging and time-consuming, but valuable exercise.</p> <p><b>Supplier problems</b> Supplier altered packaging which caused fire hazard:</p> <ul style="list-style-type: none"> <li>○ all inventory was returned to supplier</li> <li>○ HP stopped using supplier</li> </ul> <p>Supplier halved payment terms at short notice:</p> <ul style="list-style-type: none"> <li>○ HP stopped using supplier</li> <li>○ supplier sold substandard goods to developer</li> </ul> <p>Supplier kept delivering late:</p> <ul style="list-style-type: none"> <li>○ supplier reduced number of delivery vehicles in anticipation of downturn</li> <li>○ HP stopped using supplier</li> </ul> <p><b>Buying Group</b> HP is not part of a buying group. Some competitors are part of a buying group. HP would consider joining.</p> <p>Advantages</p> <ul style="list-style-type: none"> <li>○ volume discounts</li> <li>○ single monthly payment</li> <li>○ reduce price volatility</li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>○ short credit periods</li> <li>○ strict payment terms</li> <li>○ constraint on business activities (less freedom compared with dealing with suppliers directly)</li> </ul>	<p>Bricks and cement: only 2/3 suppliers</p> <p>Some suppliers &gt; £1m pa</p> <p>Suppliers by value:</p> <ul style="list-style-type: none"> <li>○ Trindle 18%</li> <li>○ York 11%</li> <li>○ Rustan 9%</li> <li>○ Zello 7%</li> <li>○ Oxlite 6%</li> <li>○ Graeme 5%</li> <li>○ Other 44%</li> </ul> <p>NMBS: largest UK buying group over 1,000 merchants with over 3,100 branches</p> <p>CMPI expected to rise</p>

			<b>Other suppliers</b> Vehicles: Panthus; Zigzag Motors IT: Grossmark (ERP): TopTech (security) Fixtures and fittings: Harris; Thistle; Taylors of Warrington Utilities: North West Energy	
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Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points
11	Risk tracker	R2/R3	<p>Prepared July 2020. Previous review: January 2020.</p> <p><b>Risks</b></p> <ol style="list-style-type: none"> <li>1. Market: economy; housing market; construction/home improvement sectors; weather <ul style="list-style-type: none"> <li>○ Mitigation: cost reduction, lower capital investment, wide range of customers and products</li> </ul> </li> <li>2. Competition: manufacturer sells direct to customer; online-only merchants (COL); CMA <ul style="list-style-type: none"> <li>○ Mitigation: varied customer base; competitive pricing; expanding online activity</li> </ul> </li> <li>3. Cash Flow: adverse working capital movements <ul style="list-style-type: none"> <li>○ Mitigation: flexible overdraft and good relationship with bank (PPE for loan security); monitoring of credit status for key customers; no large receivables</li> </ul> </li> <li>4. Customer: loss of major customer <ul style="list-style-type: none"> <li>○ Mitigation: no customer contributes more than 5% of revenue; monitoring of credit status for key customers; no large receivables</li> </ul> </li> <li>5. Supplier: loss of major supplier providing crucial product <ul style="list-style-type: none"> <li>○ Mitigation: several high-volume suppliers, monitoring of financial status</li> </ul> </li> <li>6. Cybersecurity: operational disruption, financial loss, reputation damage, lost customers, data compliance <ul style="list-style-type: none"> <li>○ Mitigation: Exhibit 9 security, IT maintenance support, ERP project</li> </ul> </li> <li>7. Health and Safety: legal breach, financial loss, reputation damage <ul style="list-style-type: none"> <li>○ Mitigation: H&amp;S Manager and policies</li> </ul> </li> <li>8. Inventory obsolescence <ul style="list-style-type: none"> <li>○ Mitigation: research; suitable inventory levels; store products safely, new inventory management system</li> </ul> </li> </ol>

Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points
12	Strategic Plan	R2/R3	<p>Prepared July 2020.</p> <p>Further temporary closures could be required.</p> <p>Online system enhancement has led to new customers who are likely to return.</p> <p>Housebuilding and renovation in north-west (main driver for HP) expected to remain strong.</p> <p>Continued availability of UK government incentives will increase demand.</p> <p>Niche sectors growing: properties for the elderly (Orko: care homes)</p> <p>Decline in activity across non-residential building sectors (Wrights: office builder)</p> <p><b>Opportunities and challenges</b></p> <ol style="list-style-type: none"> <li>Price rises expected for some products (e.g. roofing) due to shortage in components; long lead time for some products; not easy to find alternative suppliers <ul style="list-style-type: none"> <li>Joining a buying group could help limit the impact</li> </ul> </li> <li>IT systems must be kept reliable and up to date, particularly e-commerce. Must maintain strong relationships with customers, especially online-only customers <ul style="list-style-type: none"> <li>ERP project will be key</li> </ul> </li> <li>High staff morale must be retained <ul style="list-style-type: none"> <li>Flexible home working, regular conference calls, support network</li> </ul> </li> <li>Costs and inventory levels must be monitored <ul style="list-style-type: none"> <li>Rationalise product portfolio: products which are unprofitable/take up space disproportionate to revenue they generate</li> </ul> </li> <li>No plans for new branches; refurbishments will continue; may reduce size of some branches if online trend continues; C&amp;C may be expanded to other branches; new storage facilities may be built</li> </ol>

Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points
13	Competition and Markets Authority (CMA)	R2/R3  Ethics	<p>Works to promote competition for the benefit of consumers.</p> <p>Ensures that consumers obtain a good deal when buying goods and services and that businesses operate within the law:</p> <ul style="list-style-type: none"> <li>○ investigates mergers to make sure that they do not reduce competition</li> <li>○ investigates entire markets if it believes that there are competition or consumer problems</li> <li>○ acts against businesses that participate in anti-competitive behaviour</li> <li>○ protects consumers from unfair trading practices</li> <li>○ encourages government and regulators to use competition effectively on behalf of consumers</li> </ul> <p>Several investigations into anti-competitive behaviour in construction industry.</p> <p>Example 1:</p> <ul style="list-style-type: none"> <li>○ companies colluded to reduce competition/increase prices</li> <li>○ shared confidential information on future pricing and strategy</li> <li>○ co-ordinated activity to reduce uncertainty</li> <li>○ monitored each other's prices and challenged each other's quotes</li> <li>○ whistleblowing meant that one company was not fined (Leniency Programme)</li> <li>○ £15m fines in total</li> </ul> <p>Example 2:</p> <ul style="list-style-type: none"> <li>○ fixed/co-ordinated prices</li> <li>○ shared confidential information</li> <li>○ shared the market by allocating customers</li> <li>○ £36m fines in total</li> </ul>

Exhibit	Exhibit Type	Exhibit Use in Exam	Key Narrative Points
14	Media	Wider Context	<p><b><u>Building Software Revolution</u></b></p> <p>Customers who purchased in person are now purchasing online.  New customers are being reached.  Cement Online (COL):</p> <ul style="list-style-type: none"> <li>o online only (few overheads)</li> <li>o cheaper than rivals</li> <li>o 2 new warehouses close to roads</li> <li>o warehouses are a strategic distance apart to maximise coverage</li> </ul> <p>Greg &amp; Sons:</p> <ul style="list-style-type: none"> <li>o engaged Transit (website specialists) to develop an internet-based sales function</li> <li>o added 10% to annual revenue</li> <li>o converted worst performing branch into a warehouse</li> <li>o unforeseen costs</li> <li>o lost and damaged inventory</li> <li>o branch location not suitable for warehouse</li> </ul> <p>Tradespeople use merchant websites to compare prices and gauge quality.  Online chat and FAQs add value.  Half of all orders are still placed at stores so branch staff still important.</p> <p><b><u>Retirement Villages</u></b></p> <p>Retirement villages usually comprise at least 100 properties.  Antoine (retirement village developer):</p> <ul style="list-style-type: none"> <li>o 4 villages in south of England (150 homes per village)</li> <li>o one of the earliest companies to build retirement villages</li> <li>o flexible working relationships with merchants and specialist suppliers</li> <li>o uses several suppliers for initial development and ongoing repairs</li> <li>o building products are about 25% of total building cost</li> <li>o 15% trade discount is typical for projects of this scale</li> <li>o first village: cost 50% more than budget; opened 6m late; bank put pressure on Antoine to delay supplier payments</li> <li>o other 3 villages have been opened less than 3 months late</li> </ul> <p><b><u>Buying Group</u></b></p> <p>MiNW: 20 builders' merchants in north-west.  Committed to enhancing business opportunities and profit margins through joint purchasing while giving suppliers an efficient route to market.  Member companies have collective control over strategy and decision-making.  6 product teams negotiate high-value deals.  Implements best practice.  Lobbies government.  Product launch: demonstration using video conferencing; member networking.</p> <p><b><u>IT Systems (E-commerce) Upgrade</u></b></p> <p>Yorath &amp; Co only got one quote from a related party.  No proper testing or parallel running.  Consequences: inaccurate information; security breaches; reputational damage.</p>

### Possible Exam Scenarios

R1	R2/R3
<ul style="list-style-type: none"> <li>○ Revenue and GP</li> <li>○ Revenue, GP and OP</li> <li>○ Revenue, GP + Cash</li> </ul> <p>One-off analysis</p> <ul style="list-style-type: none"> <li>- Average branch revenue per month</li> <li>- Branch analysis</li> <li>- Branch refurbishment/closure/opening</li> <li>- Product recall/supplier issue</li> <li>- Delivery charge changed</li> </ul>	<p>ERP project</p> <p>Buying group/Supplier proposal</p> <p>Customer proposal</p> <p>Branch refurbishment/closure/opening</p> <p>Distribution changes</p> <p>Product recall/supplier issue</p> <p>New warehouse</p> <p>C&amp;C implementation</p> <p>Trade discount changed/expanded to BCT</p> <p>IT issues/outage</p> <p>Ethics:</p> <ul style="list-style-type: none"> <li>○ Sustainability</li> <li>○ Redundancies due to automation</li> <li>○ Community consultation re: branch changes</li> <li>○ CMA</li> </ul>

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## Reminders

### R1

#### Revenue

- 30.06.20 £30m target
- Average branch revenue per month

#### COS

- Payroll: 15% of revenue
- Goods for sale: 70% of revenue

#### GP

- RH v BTC sales mix: GPM impact
- Online v Branch sales mix: GPM impact

#### OP

- Distribution as % of revenue
- Admin as % of revenue

#### Wider industry context

##### Revenue

- Industry depends directly on trends in construction/housing/home improvement markets
- Regional variation: north-west has seen steady growth in construction
- Construction industry has been relatively unaffected by the downturn
- Short-term boosts increase demand e.g. home buyer incentives
- Weather impacts activity (warm weather is beneficial)
- Government policy to increase the supply of homes increases demand
- Growth in personal home improvement expenditure increases demand
- Decline in activity across non-residential building sectors (Wrights: office builder)
- Sales increasingly online
- Online threat (COL)

##### Costs

- CMPIs expected to rise in 20-21
- Price rises expected for some products (e.g. roofing) due to shortage in components

##### Cash

- Many merchants have poor working capital management and use borrowings

**ERP project**

- Technological innovation in industry
- Increasing capex on technology in industry
- Improves efficiency and cuts costs
- Automation resulting in redundancies (reluctant to lose staff in Phase 1)
- E-commerce needs updating for online growth
- Need to maintain strong relationships with customers and find new ways to engage with them
- Online chat and FAQs add value
- Online threat (COL)
- 2020: 50% of IT outages related to e-commerce; Lost revenue £600k
- 2019: 20% of IT outages related to e-commerce
- Customer dissatisfaction and social media posts
- Exposed to data breaches
- Cybersecurity risk: operational disruption, financial loss, reputation damage, lost customers, data compliance
  - Mitigation: Exhibit 9 security, IT maintenance support, ERP project
- Difficult to allocate staff costs between branch and online so no COS or GP analysis by channel
- Problems with maintenance as Grossmark not always able to attend within 2-hour window
- Greg & Sons:
  - engaged Transit (website specialists) for internet-based sales function
  - added 10% to annual revenue
- Yorath & Co:
  - one quote from a related party
  - no proper testing or parallel running
  - consequences: inaccurate information; security breaches; reputational damage
- Exhibit 9 process and calculation
- Phase 2:
  - start after 30.06.21
  - finished by 30.06.22
  - new website and e-commerce facility
  - reduced admin for online sales
  - better management information
- Phase 2 and 3: account portal (could reduce receivables days); CRM system; supplier platform; accounting system; route management system (could reduce distribution costs)

**Assumptions:**

- Revenue: £500k-£1.2m pa
  - Actual was lower: £600k v £450k
  - £600k lost revenue due to IT outages (2020)
- GPM: 20%
  - Actual: 19.1%
- Capital costs: £180-£240k (3yr UEL)
  - Actual: as per quote
- Maintenance and support: £30-60k pa
  - Actual: as per quote
- Cost savings: £60-120k pa
  - Actual: higher
- Delivery costs: 6% of revenue
  - Actual: 7%
- Costs of subsequent changes were as agreed

### **Buying group**

- Need for economies of scale
- CMPI expected to rise in 2020-21
- Goods for sale: 70% of revenue
- Price rises expected for some products (e.g. roofing) due to shortage in components; long lead time for some products; not easy to find alternative suppliers
- Advantages
  - volume discounts
  - single monthly payment
  - reduce price volatility
- Disadvantages
  - short credit periods
  - strict payment terms
  - constraint on business activities
- NMBS:
  - largest UK buying group
  - over 1,000 merchants with over 3,100 branches
- MiNW:
  - 20 builders' merchants in north-west.
  - Committed to enhancing opportunities and margins through joint purchasing
  - Member companies have collective control.

### **Supplier**

- Need for economies of scale
- Price rises expected for some products (e.g. roofing) due to shortage in components; long lead time for some products; not easy to find alternative suppliers
- Many product lines require many suppliers
- Some only supply a few lines
- All UK: some several hundred km away
- Bricks and cement: only 2/3 suppliers
- Previous issues with suppliers resulted in suppliers being removed/replaced
- Risk: loss of major supplier providing crucial product
  - Mitigation: several high-volume suppliers, monitoring of financial status
- Some suppliers > £1m pa
- Suppliers by value:
  - Trindle 18%
  - York 11%
  - Rustan 9%
  - Zello 7%
  - Oxlite 6%
  - Graeme 5%
  - Other 44%
- Due diligence on new larger suppliers:
  - financially stable
  - treat employees fairly
  - product quality and safety
  - sustainability: products, energy, delivery
- Due diligence performed twice yearly
- General monitoring of supplier performance



## Customer

- Merchants seek to become sole/preferred supplier to regional housebuilders
- Most sales are on credit
- Managing relationships with major trade customers is crucial: high quality; efficient delivery; competitive prices; delivery time is a key factor for customers
- Seasonality: 50% of sales are typically made in 4m period March-June when most housebuilding and refurbishments start
- Risk: loss of major customer
  - Mitigation: no customer contributes more than 5% of revenue; monitoring of credit status for key customers; no large receivables
- Orko:
  - HP won Supplier of The Year from Orko
  - niche sectors growing: properties for the elderly
  - uses several suppliers
  - uses Ridley plumbing for sanitary and heating
  - care homes of equal size
  - average value of supplies: £400k
  - plans to expand via acquisition of Dolphino (retirement village developer)
  - steady increase in the average age of the UK population
  - retirement villages usually have 100 properties
  - Antoine:
    - 4 villages (150 homes per village)
    - uses several suppliers for initial development and ongoing repairs
    - opened villages late
    - bank put pressure on Antoine to delay supplier payments
    - 15% trade discount is typical for projects of this scale

## **Branches**

- Situated in industrial parks
- Sites require substantial storage and distribution facilities, customer access areas and showrooms
- Branches are roughly of equal size
- E-commerce reduces the need for large branches
- Online sales have higher GPM due to less staff costs
- 50% of sales are typically made in 4m period March-June when most housebuilding and refurbishments start
- Wigan 2019: Strengthening mgt team and inventory control improved performance
- Around 15 staff per branch:
  - Manager
  - Assistant Manager
  - 2 accounting and admin
  - 11 others

## Opening

- Gradual opening of new branches in Jan or July, pace seems to have accelerated in recent years
- Plans to open new branches on hold
- Manchester
  - opened 01.07.17
  - more user friendly than Bury
  - better location and configuration due to market research
  - strong regional profile provided marketing
  - £2m in first 12m
  - large number of staff recruited to ensure strong start when Manchester branch opened
- Liverpool
  - Opened 01.01.19
  - £973k in first 6m
  - Liverpool site acquired jointly with Ridley Plumbing and led to cross referrals

## Refurbishment

- Refurbs will continue
- C&C may be expanded to other branches
- Refurb in Jan 19: £150k combined cost (Warrington/Preston)
- Refurb in Jan 20: £120k combined cost (Blackburn/Burnley)
- Notice of closure; Redirect customers; Transfer inventory; Little impact on business overall

## Closure/Size Reduction

- May reduce size of some branches if online trend continues
- New storage facilities may be built
- Bury closure:
  - closed 31.12.16
  - due to poor trading
  - performance never recovered after fire in 2013
  - inventory and PPE transferred to other branches
  - where not possible to transfer, inventory sold for 50% of normal sales price and PPE sold for £0
  - staff redeployed to other branches or head office
  - closure costs: £100k, including £40k loss on PPE disposal
- Greg & Sons:
  - converted worst performing branch into a warehouse
  - unforeseen costs
  - damaged inventory
  - location not ideal for warehouse due to vehicle access

## **Distribution**

- Delivery time is a key factor for customers
- Some merchants outsource
- Distribution becoming even more critical due to increase in online sales
- Branch sales
  - large orders delivered by HP
  - small orders collected by customer
- Online sales
  - all orders delivered (except C&C)
- Vast majority of products delivered to customers' premises or construction sites.
- Rise in C&C resulting in more being collected from branches.
- Large, flexible and reliable fleet of vehicles with qualified drivers.
- Gradually replacing all vehicles, with electric models where possible (cost savings).
- Delivery charge
  - Orders >£100: free delivery
  - Orders <£100: charge
- Delivery: within 48 hours
- 4-hour time-slot
- C&C: no charge
- Delivery charge being reviewed as cost may outweigh customer attraction
- Some competitors use sliding scale for all deliveries.
- Deliveries on time:
  - Target: 95%
  - 2020: 94%
  - 2019: 92%
  - 2018: 91%
- Late delivery refund:
  - Delivery charge
  - + 5% of order value

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## **Product recall/supplier issue**

- 30-day return policy for unused products but few returns are made
- Usually due to a production fault so batch is returned to manufacturer for full refund
- Manufacturer product recall: HP works with manufacturer to track all items which have been sold and are in inventory

## **New warehouse**

- New storage facilities may be built
- Location near customers and roads reduces holding costs
- E-commerce requires central warehouses
- Online sales have higher GPM due to less staff costs
- Inventory for online sales taken from Warrington warehouse
- COL:
  - 2 new warehouses close to roads
  - warehouses are a strategic distance apart to maximise coverage
- Greg & Sons:
  - converted worst performing branch into a warehouse
  - unforeseen costs
  - damaged inventory
  - location not ideal for warehouse due to vehicle access

**C&C**

- C&C may be expanded to other branches
- Reduces distribution costs, shortens delivery times and improves inventory turnover
- No charge for C&C
- A vital addition that has boosted sales

**Trade discount**

- Trade customers receive discounts as purchase frequently and in bulk
- Most sales are on credit
- Many merchants have poor working capital management and use borrowings

**RH:**

- 10% discount on branch and online prices
- Any volume/value

**BCT:**

- 5% discount on branch prices
- Minimum monthly spend
- Higher GPM for BCT customers as less discount
- RH and BCT: 30 days credit - varied in exceptional cases

**IT issues/outage**

- E-commerce needs updating for online growth
- 2020: 50% of IT outages related to e-commerce
- 2019: 20%
- Lost revenue: £600k
- Customer dissatisfaction and social media posts
- Exposed to data breaches

NOT FOR DISTRIBUTION