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paradigm shift.

To allow for the impact of stapling in the recommended place (vertical staple in the top left corner of the page), we have slightly offset the text at the top left of some pages – this is not a formatting error

House Pride Limited (HP) (July 2021 Case Study)

Exam Room Pack

Tip – print single-sided

For maximum efficiency under time pressure, we recommend that you print this Exam Room Pack single-sided: this will allow you to “peel” the pages over when searching for information as only the facing page will be printed, saving significant amounts of time as compared to flipping around in a double-sided print.

Printing the document single sided will also reduce the impact of any stapling of the document in our suggested location of the top left of the page.



We are pleased to announce that all profits from this publication will be transferred to our sister company Paradigm Shift Housing Limited to provide subsidised housing to NHS staff and other Key Workers. Thank you for your support of this project!

Disclaimers

We have made every effort to check the accuracy of this Exam Room Pack (ERP) but it is **your responsibility as a candidate to confirm all facts and figures to the official ICAEW Advance Information**. We do **not** accept any responsibility or liability for any errors or omissions in this document nor for your ultimate performance in the examination.

All page references marked as “p” plus a number are references to pages in the **Advance Information**. Any cross-references between pages within this Exam Room Pack itself will be very clearly marked as such.

Our notes applicable to the R2 & R3 financial models are based on our best efforts to determine the possible subject matter but obviously we cannot guarantee what will be tested on examination day.

Remember that the **R2 & R3 calculations** are generally only worth **10-20% of the marks in each of R2 & R3** and in several recent examinations these calculations have been marked at least partly on an “own figure” (i.e. any result is acceptable) basis.

So please do not fall into the trap of spending a disproportionate amount of time on the calculations during your examination attempt!

We have placed our thematic summaries in **alphabetical** order (except for our **Example report cover page**) – please familiarise yourself with our ordering of the content before examination day as it is not necessarily the order that you will use the pages in the examination itself.

Repetition of content

Please note that we have **intentionally copied and pasted** some text into different pages of the Exam Room Pack to ensure that certain key points are not missed depending on which page you turn to – this repetition is **intentional and carefully considered** and does not represent an error or fault with the publication.

Different ERPs!

Rather annoyingly, the Advance Information refers to HP’s own ERP (meaning **Enterprise Resource Planning**). All references to “ERP” after this page refer to the House Pride **Enterprise Resource Planning** initiative and not this Exam Room Pack!

Formatting of this ERP

We have prepared this ERP using a format which we believe is clear, efficient and effective, based on previous experience of preparing a number of similar ERPs and discussing the format with our tuition course students at previous sittings.

Whilst we recognise that some students may have their own ways of working and would prefer different formatting, for reasons relating to copyright and time constraints, we will **not** provide you with a personalised reformatted version nor with the original source files under any circumstances – therefore, please do not contact us to request this.

If you require the text to be placed on different pages or in a different order then please work on your own version as it is unreasonable to expect us to produce customised versions for individual students.

Errata and Further Ideas Notification

If we discover or are made aware of any errata in this ERP (and/or find that further ideas should be added) we will post a message regarding the necessary issues(s) on our **online learning platform**.

Please note that we will NOT email you in relation to these matters, due to time constraints and the possibility that you may not receive our email in time or at all – we believe that it is safer for us to place the information on a **website** but please kindly continue to **monitor** our online learning platform **right through to examination day** as we obviously do not know when any errata might be identified or notified to us by students.

We provide our errata notifications as part of our good faith efforts to assist you as much as possible but the provision of the relevant notifications does not in any way constitute our acceptance of any liability as a result of any errors and omissions and it **remains your sole responsibility as a candidate to confirm all facts and figures stated in this Exam Room Pack to the official ICAEW Advance Information**.

Many thanks again for your purchase and best of luck for your examination!

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Example report cover page

Your report cover “page” should be included just before your Executive Summary response at the top of the word processing area in the assessment software.

There is no separate answering section for the cover “page” so placing the content at the start of the Executive Summary is acceptable.

As your Case Study character (Jules Wingate) is on secondment to House Pride Limited, the report is (unusually) not an external report. Therefore, there is no need to include a “Bannerman”-style disclaimer statement.

The last time that an internal report was tested in Case Study was in the July 2016 past paper. We have reviewed the July 2016 markscheme and have noted that candidates were awarded the relevant mark for not including a disclaimer and for writing the report in the name of their line manager at the company. Therefore, you should put the report in the name of “Amanda Ellis” (and not in the name of your Case Study character (Jules Wingate)).

Internal report to the board of House Pride Limited (“HP”)

Amanda Ellis

21 July 2021

Branches

Background facts

The **Warrington** branch site includes the company's **head office** and a large **warehouse** (p12) – HP has **8** branches of **roughly equal size** (p11) – the **Liverpool** site was acquired jointly with **Ridley Plumbing** (p24)

Branch revenue for YE 30 June 2020 (p12)

	£000
Warrington	2,970
Preston	2,457
Blackburn	3,168
Burnley	2,860
Wigan	2,101
Bolton	2,565
Manchester	2,513
Liverpool	1,845

Closure of the Bury branch

One of the earliest branches, **Bury**, was closed on 31 December 2016 after a prolonged spell of **poor trading** (p12) – its performance **never fully recovered** from a **fire** in 2013 (p12)

At the time of closure, HP transferred **inventory** to other branches, as well as items of **PPE** that were **moveable** and **still useable** (p12) – where this was not possible, it disposed of the **PPE** for **zero proceeds** and sold the **inventory** for **50%** of its **normal sale price** (p12)

Staff were **redeployed** to other branches or to head office (p12) – **net closure costs** for the Bury branch, including a loss of **£40,000 on the PPE**, were **£100,000** (p12)

Planned site openings

HP had **planned** to open **2** new sites (**Chorley** and **Blackpool**) in YE **30 June 2020** but these plans are **currently on hold** because of uncertainty about general trading conditions (p12, p37)

Branch operations

It is one of HP's internal requirements that **all branches** are situated in **industrial parks**, alongside other **large enterprises** such as **Ridley Plumbing** (p24)

This sometimes leads to **cross referrals** (for example, when HP is approached by property developers requiring specialist plumbing products that are not part of the range that HP supplies or when a Ridley Plumbing customer is looking for accessories and can be redirected to HP) (p24)

Occasionally HP **buys products itself** direct from **Ridley** and in such cases it benefits from Ridley's **trade discount** (p24) – similarly if Ridley has to buy any products from HP, it receives **HP's normal trade discount** (p24)

Each branch has a team of around **15 staff**, led by a Branch Manager and Branch Assistant Manager (p24) – other than the 2 accounting and administration staff at each branch, **all staff are trained** to work on the shopfloor serving customers and at the back of the site, loading and unloading goods and ensuring that all items are checked in and **stored securely and safely** (p24)

HP operates a **rolling refurbishment programme** and the **Strategic plan** states that this is to **continue** (p14, p37)

Industry context

A **common phenomenon** is that of buying groups: small and medium-sized merchants coming together to achieve economies of scale and to compete against the large national chains (p9) – their increased purchasing power leads to **bigger volume discounts** and the ability to **settle accounts with several suppliers** using a **single** monthly payment (p9)

There are downsides of membership too, notably **short credit periods** and **strict payment terms** (p9)

Buying group in the spotlight (Recent media coverage)

MiNW is a buying group comprising 20 independent builders' merchants of similar size and located across the **north-west** of England (p43) – member companies can use MiNW's Product Teams to negotiate and manage high value deals competitively and fairly, benefiting both members and suppliers (p43)

MiNW is always one of the **first groups** to implement the latest **best practice** and to **lobby government** on issues affecting members (p43)

MiNW has recently adapted some of its activities to benefit from **new technology** (p43) – an example is **new product launches** where a representative from MiNW visits all member companies to demonstrate the product and explain its pricing structure and benefits face-to-face (p43) – the most recent launch took place by a **videoconference** attended by members and feedback was excellent with several orders of the product being made in the week after the event (p43)

Other advantages of **videoconferencing** were that attendees, all with busy schedules, did not have to **travel** and they also had a chance to **network** with one another (p43)

Buying groups

HP view and strategy

HP enjoys the **freedom** that comes from dealing direct with suppliers, in terms of ordering, pricing and payment terms (p34)

HP is conscious that some of its **competitors** are members of buying groups and that whilst this may involve **generous bulk discounts** from some suppliers, it can also be a **constraint** on its business activities (p34)

However, HP would **not rule out** joining such a group (p34)

HP recognises that if it joined a buying group, it could potentially limit the impact of **price variations** relating to **fluctuations** in the price of goods derived from **natural substances**, as a result of the buying group's stronger negotiating power with its suppliers (p34)

The **Strategic plan** notes that joining a buying group could help to **limit** the impact of **cost/margin** and **lead time** issues by giving greater **flexibility** (Strategic plan point 1, p37)

Capital investment and technology

Need for capital expenditure

Merchants need substantial **storage** and **distribution** facilities, **customer access areas** and **showrooms** (p8)

The initial **capital outlay** for each new site can be **significant** and includes the cost of fixtures and fittings, security systems and IT (p8)

Merchants that run their **own distribution networks** also need to **invest** in a sizable **fleet** of vehicles and then incur significant running costs (p8)

Impact of technology

Capital expenditure has been **rising** with more investment in **technology** (p8) – technological innovation in the industry mainly involves advances that improve **efficiency** and **cut costs**, notably in supply chain management (p8)

Many merchants use **Enterprise Resource Planning** (ERP), software packages that streamline business activities and processes (p8) – an ERP system **collates structured data** to aid the management of sales orders, finance, production, supply chain and customer relationships which helps improve demand forecasting and inventory management, allows **working capital** to be used more productively and helps to **avoid stock outs** (caused by short-term demand fluctuations), which affect merchants' **reputation** and **revenue** (p8)

There are some **specialist** providers of ERP systems, which merchants can buy and install rather than developing their own (p8)

E-commerce

The other main technological development is in **e-commerce** which serves several roles: it offers an alternative, accessible and user-friendly **channel** for customers (especially at times when they cannot easily visit and browse around merchant premises), it counters the **threat** from **manufacturers selling directly to contactors** and it **reduces** the need for **large branches** (there is instead a move towards **central warehouses** to support increased online shopping) (p8)

In recent years, some businesses have emerged that **sell only online** (p8)

To compete effectively, traditional merchants must use the latest **web design tools** to create eye-catching graphics, along with clear product descriptions and reviews, and **add value** with **interactive features** (p8) – they also need to keep their systems **up-to-date** and **secure** (p8)

Click-and-collect

Many merchants have begun to operate "**click-and-collect**", a service allowing customers to buy products **online** and then **collect** them from a local branch (p8) – this can help to **reduce distribution costs**, shorten **lead times** and improve **inventory turnover** (p8)

Background

HP is based in **Warrington** in the **north-west** of England and is one of the oldest and largest merchants in the region (p11) – HP has **8** branches of **roughly equal size** spread **strategically** across the **4** main areas of the north-west: Cheshire, Greater Manchester, Lancashire and Merseyside (p11)

HP is a purely **business-to-business** (B2B) company, serving a wide range of trade customers in **2 divisions**: (1) regional housebuilders (**RH**) and (2) building contractors and tradespeople (**BCT**) (p11)

Divisions

For management accounts purposes, the results of the business are segmented into the **2** divisions of **RH** and **BCT** (p11) – **RH** currently generates approximately **80%** of revenue (p11, p25)

Customers

HP does **not** sell **direct** to **personal customers** (p11) – sales in both divisions are made through **online** sales (which is **growing fast**) and at **branches** (p11) – products are sold at the **same prices** before any discounting regardless of the sales **channel** (p11)

Channels

Some sales go through HP's **click-and-collect** facility, a relatively **new** service in which orders made online are left for collection at a nominated branch (p11) – for management accounts purposes, **click-and-collect** is treated as part of **online** revenue and not attributed to the individual branch from which the goods are collected (p11) – it is intended that this will **change** once **all** branches possess **click-and-collect** facilities (p11)

Online sales tend to be at a **higher gross margin** than **branch** sales because staffing requirements are lower (p11)

With some **employees** being involved in **both** branch and online (**including click-and-collect**) sales, it is not straightforward to allocate staffing costs across the 2 channels so there is **no analysis of cost of sales by channel** in the management accounts (p11)

Company background

Distribution

Distribution costs **vary** between the 2 **channels** – for **smaller** value/volume branch transactions, the **customer** transports the goods but for **larger** purchases, the customer arranges for **delivery** (p12) – for standard **online** sales (i.e. other than click-and-collect), goods always have to be **delivered** to a specified location (p12)

HP prides itself on selling **quality** products at **competitive** prices, supported by **experienced staff** (p23)

Accreditations and awards

HP has achieved a range of **professional accreditations** including ISO9001 (quality management) and FSC® and PEFC status, enabling all branches to supply Chain of Custody timber (p26) – HP has also won **several accolades** from **key customers** including **Supplier of The Year** from **Orko**, a developer of retirement homes (p26)

Marketing and advertising

HP uses **social media**, as well as local radio and television, together with trade publications, to promote itself and especially its branch network (p26) – HP also sponsors **industry conferences** and events, as well as a **Manchester netball team** and a **Liverpool athletics club** (p26) – towards the end of YE 30 June 2020, it began to benefit from **reduced advertising rates** being introduced by **broadcasters** (p26)

Seasonality

In a typical year, around **half** of all sales are made in the **last 4 months** of HP's financial year (**March to June**), the time when most housebuilding and refurbishment projects are started (p23) – other factors can also affect sales trends, such as the **weather**, **government announcements** about **new incentives** and the **general economic situation** (p23)

Competition and Markets Authority (CMA)

Role and powers

The **CMA** works to **promote competition** for the benefit of consumers, both within and outside the UK (p39) – it ensures that consumers obtain a **good deal** when buying goods and services, and that businesses operate within the law by (p39):

- investigating **mergers**, to make sure that they do not reduce competition (p39)
- investigating **entire markets** if it believes that there are competition or consumer problems (p39)
- taking action against businesses and individuals that participate in **cartels** or **anti-competitive behaviour** (p39)
- protecting consumers from **unfair trading practices** (p39)
- encouraging **government** and **other regulators** to use **competition** effectively on behalf of consumers (p39)

In recent years, the CMA has carried out **several investigations** in the wider construction sector, **especially** in relation to **anti-competitive practices**, leading in some cases to **substantial fines** (p39) – this has included cases involving the supply of **groundworks** (Example 1: see righthand panel) and pre-cast concrete **drainage products** (Example 2 see righthand panel) (p39)

The CMA has stated that it “will not hesitate to issue appropriately **large fines** in these cases” and that it “will continue to crack down on **cartels** in the construction sector and in other industries” (p39)

The CMA has, on occasion, **forced merged enterprises** to **sell outlets** so as to ensure **proper competition** in a particular region (p7)

Other investigations remain **ongoing** (p39)

Example 1 (2017-2020)

2 UK-based companies supplying **groundworks** (products used to protect excavations such as those made for laying pipes from collapse) were fined a total of **£15 million** (p39)

The CMA found that the companies **colluded illegally** for periods totalling nearly **2 years** to **reduce competition** and **maintain or increase prices** by sharing confidential information on future pricing and commercial strategy (p39) – they also **coordinated their commercial activities** to reduce uncertainty, including **monitoring** each other’s prices and **challenging quotes** that they deemed to be **too low** (p39)

A **third company** took part for a single period of **5 months** but was **not fined** as it brought the illegal activity to the CMA’s attention and fully co-operated with the investigation under the CMA’s **Leniency Programme** (p39)

Example 2 (2016-2020)

3 suppliers of **pre-cast concrete drainage products** were found to have infringed **competition law** in relation to the supply of certain items (p39)

The CMA found that they **broke competition law** by agreeing to **fix or co-ordinate their prices, share the market** by allocating customers and regularly **exchanging competitively sensitive information** (p39)

Fines totalling more than **£36 million** were imposed (p39)

The original decision (2019) was **upheld** on appeal in 2020 (p39)

Contextual factors

HP supplies building materials and home improvement products to regional house builders, building contractors and tradespeople across the **north-west** of England (p5)

Many merchants seek to become the **sole supplier**, or one of several preferred suppliers, to regional house builders and property developers (p7)

With a typically large customer base, and with **most** sales being on **credit**, merchants must maintain good credit control – many are **poor** at management of **cash** and **working capital** and have to take out short-term and/or long-term borrowings (p7)

The construction and home improvement sectors are representative of the **wider economy** (p9) – they can benefit from **short-term boosts** such as **new legislation** giving **generous incentives** to property buyers (p9) – the growing emphasis on **sustainability** and **energy efficiency** also creates additional demand (p9) – **weather** is another factor that determines when building or renovation works occurs (p9)

In recent years, the industry has been **helped** by **UK government policy** to increase the supply of homes and by growth in personal home improvement expenditure and in property sales (p9, p37)

In general, the UK construction industry has been **relatively unaffected** by the **economic downturn** with both housebuilding and home improvements carrying on (p9)

Some parts of the UK (e.g. the **north-west** of England) have **fared better** than others, with steady growth in construction activity (p9)

HP expects the market in the **north-west** to **remain strong**, helped by the continued availability of UK **government incentives** and by growth in **niche** sectors, notably properties for the **elderly** (p37) – there has been a **decline** in activity across **non-residential** building sectors (offices, retail and education) but **many** HP customers are **not involved** in such sectors (p37)

The **purchase of goods for sale** is by far the largest expense for merchants, typically amounting to around **70% of revenue** (p9) – **payroll costs** for customer-facing staff typically represent around **15% of revenue** (p9)

Paradigm Shift Financial Training comment: totalling up purchases of goods for resale and payroll costs for customer-facing staff (70% + 15% = **85%**) leaves a balance of **15%** remaining as **GP%** so a reasonable approximation of the industry GP% is **15%** (please note that this is **not explicitly stated** in the **Advance Information** but, in our view, it is a **reasonable norm** to apply)

A vital statistic is the set of data known as the construction materials price indices (**CMPIs**), which are recognised measures of **inflation** in the industry (p9)

Through most of the past **5** years, the **CMPIs** have **risen** and this is expected to **continue** in **2020-21** (p9)

Some products may be **more successful** in one year than another, for a variety of reasons (e.g. **timber** sells well if there is a demand for garden fencing replacements after a **storm**) (p9)

Buying groups

A **common phenomenon** is that of buying groups: small and medium-sized merchants coming together to achieve economies of scale and to compete against the large national chains (p9) – their increased purchasing power leads to **bigger volume discounts** and the ability to **settle accounts with several suppliers** using a **single** monthly payment (p9) – there are downsides of membership too, notably **short credit periods** and **strict payment terms** (p9)

See also our **Buying groups** page (page **7** of this Exam Room Pack)

Customers – General

Customers are (1) regional housebuilders (**RH**) and (2) building contractors and tradespeople (**BCT**) (p23) – they are all located in the **north-west** of England (p23) – some are **regional** sections of larger **national** companies (p23)

Under the overall supervision of **Ross Connor** (Sales and Marketing Director), there is a small, dedicated team responsible for each **division**: Head of RH is **Bill Travers** and Head of BCT is **Des O'Reilly** (p23)

Each team consists of a group of account managers and administrators who work closely together in **winning new business** from both existing and new customers (p23) – they also liaise with **Wei Li's** team so that they are aware of the latest products available (p23)

A key aim of Bill Travers, Des O'Reilly and their teams is to **form durable long-term relationships** so that customers stay with HP over a long period (p23) – the company strives at all times to achieve **excellent customer service** under the slogan **Get It Right Now!** (colloquially referred to as **GIRN**) (p23)

Staff receive **regular training** and there is an annual dinner every January at which awards are presented for outstanding examples of customer service (p23) – the new **ERP** system should enable further improvements (p23)

All **major** customers (**most** of whom are in the **RH** division) have a named HP Account Manager who is the point of contact for all aspects of trading (p23) – HP can provide **monthly** or **quarterly** updates on customer spend and breakdowns of spend by specific products or by product group (p23)

HP also attempts to **retain customers** through the **expertise** of its branch staff and **monthly free workshops** at **3** of its branches where customers can see products being **demonstrated** (p23)

In recent months, these workshops have been held on a **videoconferencing** platform and have been well received, with **no noticeable drop** in the level of **interest** or subsequent purchase of the new products (p23)

HP is a purely **business-to-business** (B2B) company, serving a wide range of customers (p11) – HP does **not** sell **direct** to **personal customers** (p11)

RH customers are **relatively small** in number but their **annual spend** with HP is **high**: between them, they provide around **80%** of HP's revenue (p25) – RH customers pay "**trade prices**" for all purchases (a **10%** discount on prices advertised in **branches** and on HP's **website**, **regardless** of the **volume** and **value** of transactions) (p25) – RH customers must undergo a **rigorous due diligence** and **acceptance procedure** before they qualify for these terms (p25)

By holding an "**HP card**", BCT customers are eligible to receive a **5%** discount on **all** prices advertised at **branches** when they spend a **minimum amount each month**, whether at a **branch** or **online** (p25)

Customers – Named (1)

Elevant (housebuilder)

Elevant has built **several hundred** new homes in the **north-west** of England, ranging from small flats to large family houses (p27) – Elevant has a **reputation** for **innovative, sustainable** design of properties that make **best use** of the space, as well as **high quality construction** (p27)

Many of the properties that it planned to build were inexpensive homes (known as “**affordable housing**”) aimed at public sector employees (e.g. **teachers, nurses**) for whom the UK **government** was offering **financial incentives** (p27)

After a long, careful review, **Elevant** selected HP as one of several suppliers for building products and materials (p27) – HP has so far earned **over £1 million annually** in revenue from **Elevant** (p13, p27)

Elevant states that HP provides a **fast, flexible and efficient** service and that HP staff are **friendly, helpful, experienced and knowledgeable** (p27) – at the moment, HP is **heavily involved** with one of Elevant’s **flagship new developments** and Elevant is proud to advertise HP as one of its partners (p27)

Orko (builder of care homes in the north-west)

Orko identified the need to design and build **specialist care homes** to meet the demand of the **ageing population** in the region (p28) – it has built a number of care homes in the **north-west** and for **each** of these it has engaged **HP** as one of its **main suppliers** (p28) – HP has been responsible for supplying bricks, cement, wood and other construction materials, together with windows and doors (p28)

Orko has used **other suppliers** for other items such as sanitaryware and heating suppliers (mainly from **Ridley Plumbing**), as well as bedroom, lounge and kitchen furniture and appliances (p28)

The care homes are of **roughly similar size** (p28) – the **average value** of supplies to **each** from HP has been **£400,000** (p28) – Orko recently announced its plans to extend its presence in the “care for the elderly” sector by acquiring **Dolphino**, a developer of **retirement villages** in the **north-west** of England (p28)

Orko has commented that HP is **ideally located** to supply all of its sites, is able to **provide** the products required, meets often **demanding schedules** and has **staff** who **go out of their way to assist**, offering free advice and not being afraid to tell Orko if there is a better way of doing something (p28) – **Orko** also **likes** the fact that **some** of **HP’s branches** are **close** to **Ridley Plumbing’s branches**, which can make Orko’s buying even more efficient (p28)

Strategic plan link

The board notes in the **Strategic plan** that there is prospective growth in **niche** sectors, **notably** properties for the **elderly (care homes, retirement villages)** (p37)

Members of NWFT (North-West Federated Tradespeople)

HP counts among its customers a large number of independent building contractors and tradespeople but **over half** of its **BCT** business comes from **members** of the **NWFT**, a group of tradespeople in the region involved in renovating and refurbishing properties, both residential and commercial (p28)

NWFT provides its members with **information** and **support**, saving them time and money (p28) – under the strapline “**Turn the North-West Green**”, the NWFT campaigns to encourage its members to lower carbon emissions and install energy-efficient heating systems (p28)

Membership of NWFT also entitles tradespeople to a listing on a register of **Trusted Local Traders** (TLT), a valuable marketing tool (p28) – those listed are allowed to carry a TLT logo on their publicity material and other documents (p28)

NWFT has set up a programme to advise homeowners on how to avoid being targeted by **rogue contractors** (people who **fraudulently** hold themselves out to have the necessary skills and qualifications to carry out building work) (p28) – as well as being a **criminal offence**, this inevitably results in substandard work, potentially **endangering** the lives of occupants and passers-by (p28)

An NWFT member has commented that he or she needs **reliable service** for products so is very grateful to be able to call on HP as no problem is ever too difficult to deal with (p28) – the member has **frequently recommended** HP to **other NWFT members** and they have **never been disappointed** (p28)

Customers – Named (2)

Wrights (builder and facilities manager for serviced offices)

At the end of September 2019, HP was appointed **sole** supplier of building products to **Wrights**, a builder and manager of **serviced offices** in the **north-west** of England (p27)

This followed the **bankruptcy** of Wrights’ previous sole supplier, **Brickbuild** (p27) – although HP had not previously supplied builders of commercial properties, Wrights were satisfied, from extensive discussions with HP management and other due diligence, that HP would be able to provide it with the service that it needed (p27)

HP’s RH division earned **£0.8 million** of revenue from **Wrights** in the **9 months** to June 2020 (p27)

A general **reduction** throughout the UK in the number of people travelling to **offices** and a corresponding increase in those **working from home** (WFH) could **reduce** the future level of work from **Wrights** (p27)

Wrights has commented that when it needed a new supplier urgently, HP rose to the task, and **Wrights** remains **delighted** with its decision and looks forward to many more collaborations with HP in the future (p27)

Distribution

Industry context

Transport and **distribution** constitute an important **cost** for merchants (p9)

Some merchants undertake transport and distribution activities **in-house** whilst others **outsource** them to specialist contractors (p9)

With the increase in **online** sales and a reduction in sales made by customers visiting merchants' premises, **distribution** has become even more **critical** (p9)

Builders and contractors need and expect **fast delivery** and this will often be a **key determinant** when they are selecting a merchant (p9)

Delivery requirements

The **vast majority** of products are delivered to customers' own premises or direct to construction sites (p24) – however, with the rise in **click-and-collect**, a larger proportion of sales are now being **physically transported** by customers from branches (p24)

HP needs to have a **large, flexible and reliable fleet** of vehicles for transportation and delivery, as well as a team of qualified drivers (p24) – **distribution costs** in the management accounts comprise **packaging** plus the **running costs** of vehicles (primarily fuel), repairs and drivers' wages (p24) – **running costs** are a **function** of the **numbers, sizes and destinations of deliveries** and hence they **vary according to the mix** between **branch** and **online** sales and, within the latter, the level of **click-and-collect** sales (p24)

HP's vans, lorries and other vehicles comprise a range of types and sizes of models to meet the different customer requirements and product types (p24) – HP is **gradually replacing** all its vehicles: where possible, it will introduce **electric** models, which should create **future savings in fuel** and **other running costs** (p24)

HP's delivery commitments

HP offers **free delivery** for all orders of **more than £100** (p24) – below this level, a **delivery charge** is applied (p24)

HP promises to deliver within **48 hours** of any order and it notifies the customer with a **4-hour** time-slot for delivery (p24)

HP measures the proportion of deliveries made on time in a year and this has been on an **upward trend**, reaching **94%** in **2020** (p24) – the **target** is **95%** (p24)

For **late** deliveries, any **delivery charge** is refunded together with **5%** of the order value (p24)

HP is currently **reviewing** the **free delivery** threshold, believing that the attraction to customers is outweighed by the cost to the company (p24) – some **competitors** have begun charging on a **sliding scale** for all deliveries (p24)

HP's returns policy

HP offers a **30-day returns policy** (p25) – products must be **returned unused** (p25) – in practice there are **few returns** and, where they do occur, the problem is usually found to be a **production fault** and the item (or batch) is **returned to the manufacturer**, which in turn gives **HP a full refund** (p25)

Sometimes the manufacturer announces a **product recall** and HP works with it to **track** all such items that have been sold or which are in **inventory** (p25)

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Accreditations and awards

HP has achieved a range of **professional accreditations** including ISO9001 (quality management) and FSC and PEFC status, enabling all branches to supply Chain of Custody timber (p26)

HP has also won **several accolades** from key customers for its work, including Supplier of The Year from **Orko**, a developer of retirement homes (p26)

Charity and community

HP believes in giving back to local people by supporting charitable and community ventures in the north-west (p26) – all staff are encouraged to spend **2 days** each year assisting on **community projects** (p26) – recent examples include decorating a hospital for sick children and planting a sensory garden in a public park (p26) – HP also helped a local Association for the Disabled by **donating materials** for the construction of new stables (p26)

Commitments on delivery times

HP offers **free delivery** for all orders of **more than £100** (p24) – below this level, a **delivery charge** is applied (p24) – if HP does **not deliver on time** (in a **4-hour** timeslot within **48 hours** of the order), any **delivery charge** is refunded together with **5%** of the order value (p24)

Community consultations

Before HP acquires new premises for conversion to a branch or upgrades any branch, HP **consults** external specialists and representatives from the **community** about the impact of new branches on the local environment (noise, parking and general disruption to other traffic) (p26)

Competition and Markets Authority (CMA)

The CMA has forced **merged** enterprises to sell outlets so as to ensure proper competition in a particular region (p7) – it has also investigated **anti-competitive pricing** practices among companies in the construction sector (p7, p39) – **market challenges** by the CMA could have **positive** or **negative** consequences (p35) – HP believes that it **prices fairly and acts honestly at all times** so it is not at risk of a CMA challenge (p35)

Competition and Markets Authority (CMA) – Leniency Programme

A company which took part in an **illegal form** of collusion for **5 months** was **not fined** by the CMA after it brought the illegal activity to the CMA's attention and fully co-operated with an investigation, under the CMA's **Leniency Programme** (p39)

Cyber-attack

Failure to ensure **confidentiality** and **compliance** with Data Protection law could have serious consequences (p36) – HP has rigorous **back-up** procedures and password policies (p36) – staff are trained in data management best practice (p36) – IT providers **monitor systems access** and report any unauthorised attempts to access systems (p36)

Data breaches

The area of **e-commerce** is the area where HP is **most exposed** to **data breaches** (p24) – much IT time is spent ensuring that all **protocols** are followed and that payment systems are secure (p24)

Electric vehicles

HP is gradually replacing its vehicles: where possible, it will introduce **electric models**, creating **future savings** in **fuel** and **other running costs** (p24) – HP began replacing its older vehicles with more **environmentally friendly** models in YE 30 June 2018 (p14)

Emily Hanwell's friend (newspaper editor)

In YE 30 June 2019, HP benefited from extensive **media coverage** (p14) – the **editor** of the **main regional newspaper** is a **close friend** of **Emily Hanwell** (p14)

Energy efficiency

HP uses **energy-saving lighting** and other **energy efficient processes** (p26)

Enticing opening offers

Antoine advertises **enticing opening** offers for the first properties in each village (p42)

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Environment and Sustainability Policy

HP publishes and regularly updates its **Environment and Sustainability Policy** (p25) – it endeavours to comply with environmental regulations and best practice in all areas of the business (p25) – examples include older vehicles being checked regularly in relation to the level of **emissions** and ensuring potentially **hazardous products** (e.g. **explosive products**, products that can cause **fire**, knives and **sharp tools**) are **stored safely** (p25)

Equal Opportunities Policy

HP publishes on its website its **Equal Opportunities Policy** (p25)

Headcount

HP rejected the **Zenith** ERP Phase 1 proposal partly because HP was **reluctant to lose staff** (p31)

Health and safety

The **safety** of HP's staff, customers and visitors is considered **paramount** (p25) – HP has a detailed Health and Safety Policy, which is published on its **website** (p25) – the policy also forms part of all new joiners' induction and top-up training throughout their employment (p25) – HP monitors its procedures closely, by **reviewing the policy** and its risk assessments at least annually, and the Health & Safety Manager carries out regular branch **inspections** and reports to the board at its quarterly meetings (p25)

Health and safety: Risk review Risk 7

Any failure to maintain safe work sites could expose HP to **major financial losses** and/or **legal liabilities**, with a material adverse effect on **prospects** and **reputation** (p36) – HP manages this risk and monitors potential changes in the law and regulations through a named **Health & Safety Manager**, who liaises as necessary with lawyers/other professionals and oversees training in, and compliance with, its published Health and Safety Policy (p36)

Inappropriate behaviour

Employees are encouraged to **report immediately** to their managers any instances of inappropriate behaviour, whether by colleagues, customers or others (p25)

IT security

There is a **daily cloud-based** back-up of all systems (p31) – experts from **TopTech** carry out regular checks on computer usage and immediately alert HP if they identify any unauthorised access (p31) – all staff must sign a **Privacy Policy** on joining HP (p31) – they are trained in password management and encryption processes, such as in relation to electronic payments from customers or to suppliers, as well as protection of customer and supplier data (p31) – HP's customers are warned to be on the lookout for **emails** that contain a change of payment information and to notify HP straightaway if they receive one (p31)

Clauses setting out clearly HP's policy on IT security are included in all **agreements** with **third parties** (p31) – all new IT providers must demonstrate that their systems can comply fully with HP's procedures (p31)

Manufacturer responsibilities

In the case of customer **returns**, any problem found is usually a production fault and the item (or batch) is returned to the manufacturer, which in turn gives HP a full **refund** (p25)

Sometimes a manufacturer announces a **product recall** and HP works with the manufacturer to **track** all relevant items that have been **sold** or which are in **inventory** (p25)

Modern Slavery Policy

HP publishes on its website its **Modern Slavery Policy** (p25)

Notice of branch closures to customers

In YE 30 June 2019, HP was able to give **notice of closures**, enabling **redirection of customers**, temporary transfers of **inventory** to other branches and **rearrangement of deliveries** to keep **disruption** and **lost business** to an **absolute minimum** (p14)

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Product recalls

Sometimes a manufacturer announces a **product recall** and HP works with the manufacturer to **track** all relevant items that have been **sold** or which are in **inventory** (p25)

Returns policy

HP offers a **30-day returns policy** (p25) – products must be **returned unused** (p25) – any problem found is usually a **production fault** and the item (or batch) is returned to the **manufacturer**, which in turn gives HP a **full refund** (p25)

Rogue contractors

NWFT has set up a programme to advise homeowners on how to avoid being targeted by **rogue contractors** (people who **fraudulently** hold themselves out to have the necessary skills and qualifications to carry out building work) – as well as being a **criminal offence**, this inevitably results in substandard work, potentially **endangering** the lives of occupants and passers-by (p28)

Security breaches during e-commerce upgrades

Yorath & Co upgraded its systems without **proper testing** or a **parallel run** (p43) – one of the consequences was a series of security breaches (p43) – additionally, the existing and new systems did not **communicate**, leading to inaccurate accounting information and bad business decisions (p43) – Yorath's Managing Director (Box Cox) was sacked and there was **severe damage** to the company's **reputation**, with the loss of several major **long-standing** customers (p43)

Sole supplier status

Many merchants seek to become the **sole supplier**, or one of several preferred suppliers, to regional house builders and property developers (p7)

Staff morale and mental health

HP seeks to provide a **happy work environment** (p25) – employees are encouraged to **report immediately** to their managers any instances of inappropriate behaviour, whether by colleagues, customers or others (p25)

The board has recognised a need to be **innovative** (for example, through **flexible home working**, regular conference calls and by setting up a dedicated support network to help staff facing **mental health challenges**) (p37)

Supplier due diligence

Before taking on any **larger** suppliers, HP's head office team carry out **due diligence** to ensure that they are **financially stable**, treat their **employees fairly** and can **supply the goods** required by HP on the **agreed terms**, and that the goods meet the most **rigorous quality and safety standards** (p33) – the due diligence also covers **sustainability** in relation to products supplied, **energy efficiency** in the **production** process and method of **delivery** to HP (p33)

Sustainability: Elevant and NWFT

Elevant has a reputation for **innovative, sustainable design** of properties that make best use of space (p27)

NWFT applies the strapline "**Turn the North-West Green**" to encourage its members to lower carbon emissions and install energy-efficient heating systems (p28)

Work environment

HP seeks to provide a **happy work environment** (p25) – employees are encouraged to **report immediately** to their managers any instances of inappropriate behaviour, whether by colleagues, customers or others (p25) – HP also publishes on its website its **Modern Slavery Policy** and **Equal Opportunities Policy** (p25)

Inventory issues

Huge range and value

The **range** of products held in inventory by merchants can be **huge**, often amounting to **several thousand lines** (p8) – at any one time, merchants may be holding inventory worth **several million pounds** (p8) – for its **accurate presentation** in the financial statements, an **extensive end-of-period** count and **valuation exercise** is therefore needed (p8)

Inventory management is a **key challenge** for all merchants, both large and small (p8) – the availability of sophisticated technology is invaluable (p8) – inventory control, pricing and ordering systems can ensure availability of the optimum breadth and depth of items (p8)

Storage and **security** are important to prevent goods from being damaged or stolen (p8)

Location

Merchants **located** near their customer base can deliver goods **quickly, minimising inventory holdings** and **storage costs**, which can otherwise be substantial (p8)

Being situated close to **road networks** and having reasonable **parking capacity** are also advantages (p8)

Product lines

Selling many product lines also usually means having a **large set** of suppliers (p8) – some may supply only a few lines (p8)

Just as with customers, the relationships and financial arrangements with suppliers need careful **oversight** (p8) – in addition, merchants undertake **checks** to ensure that suppliers meet the highest possible standards for **working conditions, eco-friendliness** and **quality assurance** (p8)

Bury branch closure

The **Bury** branch was closed on 31 December 2016 after a prolonged spell of **poor trading** (p12) – the Bury branch never fully recovered from a **fire** in 2013 (p12) – at the time of closure, **inventory** was sold off for **50%** of its **normal sale price** and **net closure costs** were **£100,000**, including a loss of **£40,000** on **PPE** (p12)

Building up inventories to avoid disappointment

In YE 30 June 2018, HP built up **inventories** across all branches to combat **shortages** of materials and to ensure that as far as possible, customers were not disappointed (p14)

HP worked hard to identify the **most popular lines** and to **anticipate changes** in tastes and needs (p14)

Online (including click-and-collect) stock picking process

For **all online** sales, including **click-and-collect**, the goods are taken from **inventory** at the **Warrington warehouse** rather than from storage at the **branch** from which they are being collected (p24)

Research and monitoring

Certain products may **cease** to be in demand among HP's customers (p36) – Risk tracker point **8** notes that **impairment charges affect the accounts** (p36)

By using focused research, astute selection and effective use of its inventory management system, HP aims to sell products **relevant** to its target markets, maintain **suitable inventory** levels and store products safely (p36) – it also monitors **competitor** activity (p36)

HP will take steps to **rationalise** HP's product portfolio, aware that some items are not profitable and that the **storage space** they occupy is out of proportion to the sales that they generate (p37)

YE 30 June 2020 comment

There was little change in inventory turnover but **some** product lines were beginning to **move slowly**: HP will continue to **monitor** this closely (p15)

YE 30 June 2020 inventory allowance

An allowance is made for obsolescence and slow-moving items (p20) – allowances are recognised as part of goods and materials within **cost of sales** (p20) – the allowance for **YE 30 June 2020** was **£135,000** (p20)

Locations

Blackburn (YE 30 June 2020 revenue: £3,168k)

Location of an HP **branch** (p12)

Blackpool

Location for a **proposed new branch** originally intended to be opened in YE 30 June 2020 but plans are **currently on hold** because of uncertainty about general trading conditions (p12)

Bolton (YE 30 June 2020 revenue: £2,565k)

Location of an HP **branch** (p12)

Burnley (YE 30 June 2020 revenue: £2,860k)

Location of an HP **branch** (p12)

Bury

Location of a **branch** closed on 31 December 2016 after a prolonged spell of poor trading (p12) – the Bury branch never fully recovered from a **fire** in 2013 (p12) – at the time of closure, **inventory** was sold off for **50%** of its **normal sale price** and **net closure costs** were **£100,000**, including a loss of £40,000 on PPE (p12)

Chorley

Location for a **proposed new branch** originally intended to be opened in YE 30 June 2020 but plans **currently on hold** because of uncertainty about general trading conditions (p12)

Liverpool (YE 30 June 2020 revenue: £1,845k)

Location of an HP **branch** (p12) on a site jointly acquired with Ridley Plumbing (p24)

The **most recent** HP branch to open (1 January 2019) (p12)

Manchester (YE 30 June 2020 revenue: £2,513k)

Location of an HP **branch** (p12)

North-west region

Comprises the areas of **Cheshire, Greater Manchester, Lancashire** and **Merseyside** (p11)

Preston (YE 30 June 2020 revenue: £2,457k)

Location of an HP **branch** (p12)

Salford

Location recorded on the **map** of the north-west on p11 but **not referred** to anywhere else in the Advance Information

Stockport

Location recorded on the **map** of the north-west on p11 but **not referred** to anywhere else in the Advance Information

Warrington (YE 30 June 2020 revenue: £2,970k)

The location where HP first started to operate and the location of its **first branch** (p11)

Location of HP's **head office** and a **large warehouse** (p11)

Wigan (YE 30 June 2020 revenue: £2,101k)

Location of an HP **branch** (p12)

Locations for new branches: internal requirements

It is an HP internal requirement that **all branches** are situated in **industrial parks, alongside** other **large enterprises** such as **Ridley Plumbing** (p24)

Named things (1)

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Albion (p30, p31) – see page **32** of this Exam Room Pack

Amanda Ellis – Finance Director (p5, p12, p13)

Antoine (p42) – see page **24** of this Exam Room Pack

Bill Travers – Head of RH (p23)

Bob Cox (p43) – see page **24** of this Exam Room Pack

Brickbuild (p15)

Previous sole supplier to **Wrights** (p15, p27) – **Brickbuild** went bankrupt (p15, p27)

British Home Enhancement Trade Association (BHETA) (p26)

One of several **trade bodies** to which HP pays an annual subscription as part of its marketing costs (p26)

Builders Merchants Federation (BMF) (p26)

One of several **trade bodies** to which HP pays an annual subscription as part of its marketing costs (p26)

cementonline.com (p41) – see page **24** of this Exam Room Pack

COL (p41) – see cementonline.com above

Construction Products Association (CPA) (p26)

One of several **trade bodies** to which HP pays an annual subscription as part of its marketing costs (p26)

Des O'Reilly – Head of BCT (p23)

Dolphino (p28)

A developer of **retirement villages** in the **north-west** of England: Orko recently announced its plans to **extend** its presence in the “**care for the elderly**” sector by acquiring **Dolphino** (p28)

Elevant (p13, p14, p27) – see also page **13** of this Exam Room Pack

A **housebuilder** which has built several hundred new homes in the north-west of England (p27) – Elevant has a reputation for **innovative, sustainable design** of properties that make best use of the **space**, as well as **high-quality** construction (p27)

Elevant is assisted by **government subsidies** (p14)

HP earns revenue of over **£1m annually** from Elevant (p13, p27)

Emily Hanwell – CEO (p12)

Graeme (p33)

Provider of **5%** of HP product purchases by **value** in **2020** (p33)

Greg & Sons (p41) – see page **24** of this Exam Room Pack

Grossmark (p30, p31, p34) – see also page **32** of this Exam Room Pack

Successful bidder for **IT services** work on **Phase 1** of HP's ERP project (p31)

Hans Ritz – IT Director (p12, p29, p30)

Joined the company on 1 July 2018 after **7** years working for a **large national housebuilder** (p29)

Harris (p34)

Supplier of fixtures and fittings (e.g. shelving) (p34)

Named things (2)

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Institute of Builders' Merchants (IoBM) (p26)

One of several **trade bodies** to which HP pays an annual subscription as part of its marketing costs (p26)

Jules Wingate (p3, p5) – your character name – you are on **secondment** from your firm (**Quiller**) to HP

MiNW (p43) – see page **24** of this Exam Room Pack

NWFT (p28) – see also page **14** of this Exam Room Pack

NWFT members account for **over half** of BCT business (p28) – NWFT provides the **Trusted Local Traders** (TLT) accreditation scheme for tradespeople (p28) – this is a valuable marketing tool for tradespeople as they can carry a TLT logo on their publicity material and other documents (p28)

NWFT has set up a programme to advise homeowners on how to avoid being targeted by **rogue contractors** (p28)

North West Energy (p34)

Supplier of **utilities** (water, electricity, gas) (p34)

Orko (p26, p28) – see also page **13** of this Exam Room Pack

Average value of supplies by HP for **each Orko care home** has been **£400,000** (p28)

Oxlite (p33)

Provider of **6%** of HP product purchases by **value** in **2020** (p33)

Panthus (p34)

Supplier in relation to **vehicle** purchases, servicing, repairs and maintenance (p34)

Quiller (p5)

A firm of **ICAEW Chartered** Accountants in the north-west of England which has sent **Jules Wingate** on **secondment** to HP (p5)

Quipp (p43) – see also page **24** of this Exam Room Pack

Provider of **unsuccessful IT services** to **Yorath & Co**, a clothing retailer which botched an **e-commerce** upgrade (p43) – Quipp was run by the sister of Yorath's Managing Director, Bob Cox (p43)

Ridley Plumbing (p24, p28)

Jointly acquired the **Liverpool** site with **HP** (p24) – involved in providing and receiving **cross-referrals** and provides and receives **a trade discount** as part of its relationship with HP (p24)

Ross Connor – Sales and Marketing Director (p12, p23)

Ross Connor oversees a small, dedicated team responsible for **each division** (p23) – the teams work closely together in **winning new business** from **existing and new customers** (p23) – the team liaises with **Wei Li's team** so that they are aware of the latest products available (p23)

Rustan (p33)

Provider of **9%** of HP product purchases by **value** in **2020** (p33)

Sister of Bob Cox (p43) – see also page **24** of this Exam Room Pack

Operator of **Quipp**, a company awarded a **£1m** contract by **Yorath & Co** to upgrade an e-commerce platform (p43) – the project was beset with **problems** leading to a **loss of accounting information, bad business decisions, security breaches**, the **sacking of Bob Cox** (Managing Director of Yorath & Co) and **severe damage** to Yorath's **reputation** and **loss** of **several major long-standing customers** (p43)

Named things (3)

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Taylor's of Warrington (p34)

Supplier of **fixtures and fittings** (e.g. shelving) (p34)

Thistle (p34)

Supplier of **fixtures and fittings** (e.g. shelving) (p34)

TopTech (p31, p34)

Supplier of **IT systems**, equipment, repairs and maintenance and back-up (p34)

Carries out **regular checks** on computer usage and immediately alerts HP if any **unauthorised access** is identified (p31)

Transit (p41)

Firm of **website specialists** who helped **Greg & Sons** to develop an internet-based sales function (p41) – Greg & Sons estimates that its new **e-commerce** sales function has added around **10%** to annual revenue (p41)

Trindle (p33)

Provider of **18%** of HP product purchases by **value** in **2020** (p33)

Wei Li – Purchasing and Inventory Director (p12, p23)

Wei Li oversees a small team (buyers, analysts and administrators) who maintain records of all products sold with details of sales by value and volume each month, as well as inventory levels (p23) – the buyers work closely together and with Wei Li to ensure that HP obtains the **best possible prices** from suppliers (p23)

Wrights (p15, p27) – see also page 14 of this Exam Room Pack

An established local builder of **serviced offices** which previously used Brickbuild as a sole supplier (p15) – **Wrights** generated **£0.8m** in revenue in its **first 9 months** as an HP customer (p15, p27)

Yorath & Co (p43) – see also page 24 of this Exam Room Pack

A well-known **clothing retailer** which implemented an **upgrade** to its **e-commerce platform** (p43) – the project was beset with **problems** leading to a **loss of accounting information, bad business decisions, security breaches**, the **sacking of Bob Cox** (Managing Director of **Yorath & Co**) and severe damage to Yorath's **reputation** and **loss** of several **major long-standing customers** (p43)

York (p33)

Provider of **11%** of HP product purchases by **value** in **2020** (p33)

Zello (p33)

Provider of **7%** of HP product purchases by **value** in **2020** (p33)

Zenith (p30, p31) – see page 32 of this Exam Room Pack

Zizag Motors (p34)

Supplier for **vehicle** purchases, servicing, repairs and maintenance (p34)

The building software revolution

Builder's merchants are finding that customers increasingly use **online methods** to make purchases (p41) – an example of a merchant with established internet capability is **cementonline.com** (COL) – with **few overheads**, COL has been able to offer its goods at very competitive prices (p41) – as another example, **Greg & Sons** estimates that a new e-commerce sales function has added around **10%** to annual revenue (p41)

COL took an approach of **building** 2 brand new **warehouses** whereas Greg & Sons closed its worst performing branch and **converted** it into a warehouse (p41) – this has proven expensive and disruptive because of **unforeseen costs**, together with lost and damaged inventory (p41) – also the **location**, while suitable for a branch, is **not ideal** for a warehouse because of different access requirements for **vehicles** (p41)

Tradespeople and other customers use e-commerce platforms to **compare prices** and gauge quality (p41) – although over half of customers regularly review their preferred product suppliers, this rarely results in a change (p41) – **online chat** facilities or comprehensive “frequently asked questions” (**FAQ**) pages can also add a lot of value (p41) – **despite** the shift towards online, **half of all orders** are still placed at stores, by phone or email, so **branch** staff continue to play an important part in forming and maintaining personal relationships and giving advice (p41)

Retirement villages

Retirement villages are **growing in popularity**, reflecting a continuing **steady increase** in the average age of the UK population (p42) – retirement villages usually comprise at least 100 properties of different types, often located in beautiful rural settings (p42)

Antoine currently has **4** villages, all in the **south of England** (p42) – it advertises **enticing opening offers** for the first properties in each village and, once these have been bought, the remaining ones generally prove easy to sell (p42) – all 4 villages are currently 100% occupied (p42)

A key factor in Antoine's success is the close, **flexible working relationships** it has developed with a **range** of builders' **merchants** and specialist suppliers (p42) – Antoine was anxious not to rely on a single supplier (p42) – the **overall purchase cost of building products** used in each village is about **25%** of the **total building cost** but this can vary according to a number of factors including geology, the extent of any leisure facilities (swimming pools are notoriously expensive), and whether houses are detached or semi-detached (p42) – for projects of the scale involved in Antoine's operations, a **15% trade discount** from merchants and other suppliers is **typical** (p42)

Retirement villages (continued)

For its **first** village, Antoine **underestimated** both the **time** and **cost** involved and the village ultimately cost around **50% more than budget** and opened **6 months late** (p42) – Antoine's **bank** put pressure on Antoine to **delay payments to its suppliers** (p42) – **delays** have been **less than 3 months** on Antoine's **other villages** (p42)

Buying group in the spotlight

MiNW is a buying group comprising 20 independent builders' merchants of similar size and located across the **north-west** of England (p43) – member companies can use MiNW's Product Teams to negotiate and manage high value deals competitively and fairly, benefiting both members and suppliers (p43)

MiNW is always one of the **first groups** to implement the latest **best practice** and to **lobby government** on issues affecting members (p43)

MiNW has recently adapted some of its activities to benefit from **new technology** (p43) – an example is **new product launches** where a representative from MiNW visits all member companies to demonstrate the product and explain its pricing structure and benefits face-to-face (p43) – the most recent launch took place by a **videoconference** attended by members and feedback was excellent with several orders of the product being made in the week after the event (p43)

Other advantages of **videoconferencing** were that attendees, all with busy schedules, did not have to **travel** and they also had a chance to **network** with one another (p43)

Look before you leap

Well known clothing retailer **Yorath & Co** recently awarded a **£1 million** contract directly to **Quipp**, a company run by the **sister of Yorath's Managing Director**, Bob Cox, **without following** the **normal practice** of **seeking 3 quotes** (p43)

Yorath & Co upgraded its systems **without proper testing** or a **parallel run** (p43) – one of the consequences was a series of security breaches (p43) – additionally, the existing and new systems did not **communicate**, leading to **inaccurate accounting information** and **bad business decisions** (p43) – Yorath's Managing Director (Bob Cox) was sacked and there was **severe damage** to the company's **reputation**, with the **loss** of **several major long-standing customers** (p43)

Our **R1 Metrics Skeleton Outline** page summarises the metrics which are **generally noted** by the examiner in each of the yearly performance reviews in the Advance Information or other Advance Information Exhibits (suggesting that the examiner is leaving hints as to what you should include)

R1 metrics skeleton outline

Revenue

Average **branch** revenue per month (p13, p14, p15) – HP achieved a figure of **£238.1k** for YE 30 June 2020 (p13)

Paradigm Shift Financial Training comment: you must look carefully at how many branches have been open and the months per branch because, based on page 15 of the Advance Information where there were a total of **86** months of branch opening in YE 30 June 2020, you should not simply assume that branches are open for 12 months each – remember to select the total **branch** revenue (not total HP revenue) as the basis of this calculation

Total revenue (p13, p14) – **£30m target** for YE 30 June 2020 (p14) but **not yet achieved** (p15)

BCT revenue (p13, p14, p15)

RH revenue (p13, p14, p15) – RH currently generates approximately **80%** of revenue (p11, p25)

Ensure that you **compare and contrast** the revenue performance of RH and BCT (the divisions)

Branch revenue (p14)

Online revenue (p14, p15)

Ensure that you **compare and contrast** the revenue performance of branches and online (the channels)

Profitability

Absolute gross profit (p14)

Gross profit margin (GP%) (p13, p14, p15) for HP and divisions

Factors to consider: **pricing strategies** and **promotions**, higher **supplier costs**, **staff** recruitment (p13)

Cost ratios

(HP's goal is to reduce these ratios (p13))

Ratio of **distribution costs to revenue** (p13, p14)

Ratio of **administrative expenses to revenue** (p13)

Inventory

Build up of inventory is monitored (p14)

Trade receivables

Trade receivables days (p13)

Computer systems show **red flags** for receivables which reach **60** and **90 days overdue** (p13)

Further points: industry norms

Reminder: one of the roles of Jules Wingate (your Case Study character) is to analyse HP's performance "by reference to ... **industry norms**" so make sure you compare HP's performance to the following **industry norms**:

- (1) in the industry, **70% of revenue** is spent on **purchases of goods for sale** (p9)
- (2) in the industry, around **15% of revenue** is spent on **payroll costs for customer-facing staff** (p9)
- (3) **double digit** revenue growth is "considerably **above** industry norms" (p14)
- (4) **GP%** of **15%** (see next point)

Paradigm Shift Financial Training comment: totalling up purchases of goods for resale and payroll costs for customer-facing staff (70% + 15% = **85%**) leaves a balance of **15%** remaining as **GP%** so a reasonable approximation of the industry GP% is **15%** (please note that this is **not explicitly stated** in the **Advance Information** but, in our view, it is a **reasonable norm** to apply)

Representative of the wider economy

The prosperity or otherwise of merchants depends directly on trends in construction and home improvement, sectors that are **representative of the wider economy** (p9) – these can benefit from **short-term boosts** such as new **legislation** giving generous incentives to property buyers (p9)

The growing emphasis on **sustainability and energy efficiency** also creates additional demand (p9)

In recent years, the industry has been helped by UK **government policy** to increase the supply of homes and by growth in personal home improvement expenditure and in property sales, leading to higher levels of renovation work (p9) – this has continued in 2020, **despite an economic downturn** (p9) – the UK construction industry has been **relatively unaffected by the downturn** (p9)

Some parts of the UK (e.g. the **north-west** of England) have fared better than others, with steady growth in construction activity (p9) – the board expects its market in the **north-west to remain strong** (p37)

Inflation in construction materials (CMPIs)

When **CMPIs** are **high**, increases in the prices that merchants pay for goods cannot always easily be passed on to customers, putting **pressure** on the **margins** of merchants (p9)

Through most of the past **5** years, the CMPIs have **risen** and this is **expected to continue** in **2020-21** (p9)

Delivery target

HP has a target to deliver **95%** of orders on time – a rate of **94%** was achieved in **YE 30 June 2020** (p24) – HP refunds the **delivery charge plus 5%** of the order value on **late** deliveries (p24)

Click-and-collect

Click-and-collect is proving to be a **“popular initiative”** (p24)

Margins

Online sales are at a **higher gross margin** than **branch** sales because staffing requirements are lower (p11) and, as a result of **discounting** policy, HP earns a **significantly higher GP%** from **BCT** customers than it does from **RH** customers (p25)

Causes of reduced GP% in YE 30 June 2018 included **pricing strategies** and **promotions, higher costs** of **purchases** and the large number of **staff** recruited to ensure a strong start at the **Manchester branch** (p13)

Products derived from **natural substances** can fluctuate in price (p34) – it is often **not possible** for HP to **pass on** such increases to customers, and this inevitably reduces **profit margins** (p34) – joining a **buying group** could potentially limit the impact of such price variations (p34)

The board expects that **YE 30 June 2021** will see **sizeable price rises** for some products (e.g. **roofing**) (p37) – HP **cannot easily absorb these price rises** and must find other ways to protect its **margins** (p37)

Online sales

HP's **online** sales channel is **“growing fast”** (p11) and was **“growing strongly”** in YE 30 June 2020 (p15) – HP has witnessed **“impressive growth”** in online sales (p37) – for management accounts purposes, **click-and-collect** sales are treated as part of **online** revenue and **not** attributed to the **individual branch** from which the goods are collected (p11) – it is intended that this will **change** once **all** branches have been **adapted** for **click-and-collect** facilities (p11)

Online sales are at a **higher gross margin** than branch sales because **staffing** requirements are lower (p11) – due to complications in cost allocation, there is **no analysis of cost of sales by channel** in the management accounts (p11)

Distribution costs

Distribution costs **vary** between the 2 **channels** (p12) – a **large** number of **smaller** orders can lead to an increase in **distribution costs** (p14)

R2/R3 inputs (1)

Branch staffing

Each branch has a team of around **15** staff, led by a Branch Manager and Branch Assistant Manager (p24) – other than 2 accounting and administration staff at each branch, **all staff** are trained to work both on the shopfloor serving customers and at the back of the site, loading and unloading goods and ensuring that all items are checked in and stored securely and safely (p24)

Care homes

Average value of supplies by HP for each **Orko care home** has been **£400,000** (p28)

Click-and-collect – number of branches

By the end of YE 30 June 2020, HP had **4** branches which offered **click-and-collect services** (p15)

Customer revenue figures

HP earns revenue of **over £1m** annually from **Elevant** (p27)

HP earned **£0.8m** from **Wrights** in the **9 months to June 2020** (p27)

Average value of supplies by HP for each **Orko care home** has been **£400,000** (p28)

NWFT members account for **over half** of **BCT** revenue (p28)

Dependence on a customer

Currently, HP's customer base is well diversified with **no single customer** contributing more than **5%** of revenue (p36)

Distribution costs

Running costs in relation to distribution are a **function** of the **numbers, sizes** and **destinations** of deliveries: hence they **vary** according to the **mix** between **branch** and **online sales** and, within the latter, the level of **click-and-collect** sales (p24)

ERP Phase 1 (inventory and cost management) benefit

With fewer stockouts, **£450,000** was added to **revenue** in **YE 30 June 2020 (less than anticipated but still good)** (p15)

Free deliveries and late delivery compensation (5%)

HP offers **free delivery** for all orders of **more than £100** (p24) – below this level, a **delivery charge** is applied (p24) – if HP does **not deliver on time** (in a **4-hour** timeslot within **48 hours** of the order), any **delivery charge** is refunded together with **5%** of the order value (p24)

Impact of e-commerce improvements

Greg & Sons estimates that its new sales function (developed by **Transit**, a firm of **website specialists**) added **around 10%** to annual revenue (p41)

New branch openings

The **Manchester** branch made sales of **just over £2m** in the **first 12 months of operations** (p13)

Liverpool added almost **£1m** to revenue in its **first 6 months** after opening (p14) – **Paradigm Shift Financial Training comment: annualised to £2m**, this is a **similar** figure to **Manchester** (see above)

R2/R3 inputs (2)

Online issues and outages: impact

Around **50%** of the **273 IT outages** in **YE 30 June 2020** related to **e-commerce** (p24) – HP estimates that it lost **£600,000** in **revenue** from **outages** in **YE 30 June 2020** (p24)

Payment arrangements

Credit terms of **30** days are typically given to **all** customers in **both** divisions, whether buying at a **branch or online**, but these terms can be **varied** in **exceptional cases** (p25)

Pricing

Products are sold at the **same prices (before any discounts)** regardless of the sales **channel** (p11)

RH customers pay “**trade prices**” for all purchases meaning that they receive a **10%** discount on all prices advertised at **branches** and on HP’s **website, regardless** of the **volume** and **value** of transactions in a given period (p25)

HP operates a loyalty scheme for BCT customers (p25) – by holding a “**HP card**”, they are eligible to receive a **5%** discount on **all** prices advertised at **branches** for all products when they spend a **minimum amount each month**, whether at a **branch** or **online** (p25)

Retirement villages

The overall purchase **cost** of **building products** used in each village is about **25%** of the **total building cost** (p42) – for projects of the scale undertaken by **Antoine (150 homes per village)**, a **15%** trade discount is typical (p42) – Antoine’s **first village** ended up costing around **50%** more than budget (p42)

Rolling refurbishment costs

The **combined capital cost** of **refurbishment** of the **Warrington** and **Preston** branches in **YE 30 June 2019** was **£150,000** (p14) whilst the **combined capital cost** of **refurbishment** of the **Blackburn** and **Burnley** branches in **YE 30 June 2020** was **£120,000** (p15)

Staff incentive scheme

HP paid **£80,000** to staff under the incentive scheme for branch, warehouse and e-commerce staff that was implemented at the **start of YE 30 June 2020** (p15)

Stores, phone and email still important

Despite the shift towards **online**, **half** of all orders are still placed at stores, by phone or email so **branch staff continue to play an important part** in forming and maintaining personal **relationships** and giving advice (p41)

Supplier provision of products

Some suppliers provide **over £1m** of goods to HP in a year (p33)

R2/R3 narrative points (1)

Declining market sectors

The board has noted a **decline** in activity across **non-residential** building sectors (offices, retail and education) but the **vast majority** of HP's customers are **not involved** in these so HP is not significantly affected by this decline (p37)

Distribution costs

Distribution costs **vary** between the 2 channels (p12)

Elderly (care homes, retirement villages) niche

The board expects to see growth in **niche** sectors, "**notably** properties for the **elderly (care homes, retirement villages)**" (p37)

Location for new branches

It is an HP internal requirement that **all branches** are situated in **industrial parks**, alongside other **large enterprises** such as **Ridley Plumbing** (p24)

Location for new storage/warehouses

COL built 2 brand-new **warehouses**, a **strategic** distance apart from each other (p41) – both were **close to motorways** and **other main roads** (p41) – the location chosen by **Greg & Sons** was not ideal because of different **access** requirements for **vehicles** (p41)

New branch openings

With its **better location** and **configuration** (both the result of **extensive market research**), the **Manchester** branch was **more user-friendly** than the **Bury** branch (p13)

Online sales

Online sales tend to be at a **higher gross margin** than **branch** sales because staffing requirements are lower (p11) – due to complications in cost allocation, there is no **analysis of cost of sales** by channel in the management accounts (p11)

Opportunity cost

Paradigm Shift Financial Training comment: any decision to reduce the size of a branch or convert a branch site to another purpose would need HP to estimate the **opportunity cost** of the change i.e. the revenue and profit of the "**baseline**" situation of not implementing the change, which can then be deducted from the revenue and profit of the new project to determine the **incremental** impact of the new project

The board **may not** provide the information needed to calculate the "**baseline**" or "**no change**" situation, in which case there is a significant flaw in the methodology as **opportunity cost has been ignored**

Product portfolio

HP's **product portfolio** comprises a wide range of items, including: bricks, sand, cement, gravel, timber, roof tiles, windows, doors and frames, flooring, nails and screws, paints, adhesives, tiles for kitchens and bathrooms, and outdoor products such as fencing (p23)

HP **does not sell sanitaryware** or **fitted kitchens** as it believes that it **cannot compete** effectively against those companies that have **specialised** outlets and divisions for such products (p23)

R2/R3 narrative points (2)

Rolling refurbishment impact

The **Warrington** and **Preston** branches were closed for a period of **1 month** at a quiet time of year (**January**) (p14) – HP was able to give **notice** of closures, enabling **redirection** of customers, temporary **transfers of inventory** to other branches and **rearrangement of deliveries** to keep **disruption** and **lost business** to an **absolute minimum** (p14)

The **Blackburn** and **Burnley** branches were both closed for the month of **January 2020** (p15)

Seasonality effect

Although sales take place through the year, there are **seasonal patterns** (p23) – in a typical year, around **half** of all sales are made in the **last 4 months of HP's financial year (March to June)** (p23)

Storage/warehouse projects – what can go wrong?

Greg & Sons chose to **convert** its **worst-performing** branch to a **warehouse** (p41) – this **seemed** to be a **cheaper** option but in fact proved to be **expensive and disruptive** because of **unforeseen costs** and **inventory was lost and damaged** (p41) – the **location** chosen by Greg & Sons was **not ideal** because of **different access requirements** for vehicles (p41)

For **all online** sales, including **click-and-collect**, the goods are taken from **inventory** at the **Warrington warehouse** rather than from storage at the **branch** from which they are being collected (p24)

Enterprise Resource Planning (ERP) project

In 2019, HP began a **3-phase ERP project** which will impact **almost every area** of the business (p29)

There will be an **integrated platform** instead of separate systems for sales, e-commerce, finance, production, suppliers and customers (p29) – the project is being led by IT Director, **Hans Ritz**, who joined HP on 1 July 2018 (p29)

Each phase will be the subject of a separate bidding process: HP will **not necessarily** use the **same supplier for every phase** (p29)

The main feature of **Phase 1** (which will initially run for **3 years**) has been a **new inventory management system** to help with reordering and provision of data on products which are selling well at any one time (p29) – there was a **parallel run of 1 month** before the new system went live (p29) – this allowed HP to be satisfied that it was working fully and to identify and resolve any initial problems with it (p29) – Phase 1 has also introduced automated invoicing, QR codes to delivery documents and a paperless document management system, creating substantial time savings and enabling complete remote access to key information (p29)

Phase 2

Phase 2 is scheduled to **start after 30 June 2021** and to be **completed** by **30 June 2022** (p29) – it will be **followed** by **Phase 3**, to be completed by **30 June 2023** (p29)

The main part of **Phase 2** will be a **new website** and **e-commerce facility** with enhanced functionality, building on the **click-and-collect** facility that HP has introduced at **some branches** (p29) – **Phase 2** will significantly **reduce** the administration involved in fulfilling web orders, while remaining flexible (p29) – it should give **better management information** and **boost sales**, especially by **encouraging customers** with “people who bought product ‘X’ also bought product ‘Y’” messages (p29)

R2/R3 possibility – ERP Phase 2 (1)

Decision-making and post-implementation review

Before carrying out a **major IT** investment, HP follows a **series of steps**, as agreed by the board:

1. Set up an **internal project team** from a range of commercial, operational and support functions (p30)
 2. Consider **scope and timetable** for development and implementation, including **testing** (with pilots on a small sample of accounts where applicable) and **parallel running** (p30)
 3. Determine **budget** (both initial capital investment and ongoing annual expenditure) (p30)
 4. Agree **specification** for presenting to suppliers (p30)
 5. Seek **potential suppliers (2 or, preferably, 3 quotes)**, ensuring that they can offer **round-the-clock maintenance** and can make any required **post-implementation changes** at an **agreed price** (p30)
 6. Review **quotes** and make **selection** using a **blend** of **financial** and **non-financial** criteria (p30)
 7. Communicate **launch date** to relevant **staff** and **other stakeholders** and carry out **hands-on training** (p30)
 8. Undertake ongoing **post-implementation reviews**, seeking **feedback** from **users** and making **changes as and when required** (p30)
- Step 6** initially comprises an assessment of the expected **incremental profits** which are then **considered in conjunction with other relevant factors** (p30) – as part of **Phase 1**, **Hans Ritz** researched the market carefully, looking at a range of IT suppliers (vendors), **narrowing the choice** and **obtaining 3 quotes** (p30)

Phase 1 calculations

	Albion £000	Grossmark £000	Zenith £000
• Supplier quote: capital costs (hardware and software)	240	225	180
• Supplier quote: annual maintenance and IT support costs (each of Years 1-3)	30	45	60
• HP estimate: additional annual revenue			
○ Year 1 (to 30 June 2020)	550	600	500
○ Year 2 (to 30 June 2021)	800	900	750
○ Year 3 (to 30 June 2022)	1,000	1,200	900
• HP estimate: saving in other annual operating costs (each of Years 1-3)	80	60	120

The **additional revenue** and **annual operating cost savings** were **estimated** by reference to the **expected results** for **YE 30 June 2019** (p30) – the **capital costs** were to be **written off** over the **3-year term to renewal** (p30) – using **20%** as an **approximation to gross profit margin** (as the June 2019 management accounts had not yet been finalised) and **6% of revenue** as an **approximation to delivery costs**, the expected **incremental operating profits** were (p30):

	Albion £000	Grossmark £000	Zenith £000
Year 1	47	24	70
Year 2	82	66	105
Year 3	110	108	126
TOTAL	239	198	301

Paradigm Shift Financial Training working for Albion Year 1

Revenue	550	
GP at 20% margin		110
Savings on other costs		80
Capital over 3 years (240/3)		-80
Annual maintenance		-30
Delivery costs at 6% of revenue		-33
OP		47

R2/R3 possibility – ERP Phase 2 (2)

Albion, Grossmark and Zenith Phase 1 bids

Albion

Did not have **expertise** (p31) – **high capital costs** and **low running costs** and demand for **90% capital costs upfront** suggested **shortage of cash** (**consistent with media reports**) (p31) – may not be able to offer **day-to-day support** (p31) – **capital costs** included items **not requested** so may be **unresponsive** (p31) – requested **2 month parallel run** (p30)

Grossmark

Knowledgeable staff reassured HP that **1-month parallel run** sufficient (p31) – **more intuitive system, less staff training** (p31) – **higher estimate of revenue benefit** than other suppliers (p31) – **no change** in level of **administrative support** so **annual cost saving lower than other suppliers** (p31) – if **trend in additional revenue continued, benefit** would **persist after initial period** (p31)

Actual cost of implementation and **annual maintenance invoice as expected** (p31) – **costs of changes** made since launch have all been **as stated** in the **signed agreement** (p31) – but **problems** experienced in relation to **maintenance** with Grossmark **not attending to requests** within the **specified 2-hour window**, due to **“staffing issues”** (p31) – **actual revenue** impact of **£450,000** for **YE 30 June 2020** is lower than **£600,000** forecast but **accepted that not a precise science** (p31) – **cost savings higher than expected** with a **fall** in the amount of **paid overtime** and **in phone calls** (p31)

Zenith

Capital bid was the **cheapest** but **ongoing costs higher** (p31) – **profit advantage not significant enough** and **uncertainties** about **“hidden”** costs based on conversations with colleagues (p31) – **3-month parallel run** indicated **lack of confidence** (p31) – Zenith based **saving in annual costs** on **reduction in headcount** but HP was **reluctant to lose staff** (p31)

Nine months to 31 March 2020

Although there was unseasonably poor **weather** in July and August 2019, this had only a **minor** impact on performance (p15) – the 9 months to 31 March 2020 were characterised by an **influx of new customers** for both **RH** and **BCT**, as well as **strong revenue growth** from **existing customers** (p15)

HP was appointed **sole supplier** of building products to **Wrights**, an established local builder of **serviced offices**, following the **bankruptcy** of **Brickbuild** (p15) – revenue of **£0.8m** was earned from **Wrights** in the **9 months to June 2020** (p15, p27)

On course to hit £30m ...

With the **full impact** of the **prior year opening (Liverpool)** and **upgrades (Warrington, Preston)** and the **next 2 upgrades (Blackburn and Burnley, which were closed for the month of January 2020 at a total capital cost of £120,000 with little loss of business)**, HP seemed to be **on course** to achieve the **£30m revenue target** (p15) – **online** revenue grew strongly with **click-and-collect** orders now available from **4 branches** (p15)

The **economic downturn affected HP** and to adapt and temporarily refocus, **all branches were closed for the month of June 2020** (p15) – **online** purchases continued to be made, reducing the loss of revenue (p15) – HP was fortunate to have a **pipeline** of **advance orders** and that major construction projects continued while businesses in other sectors suffered very badly (p15)

Most **staff** were **kept occupied** in June (p15) – in many cases, they were **re-trained** in different roles, notably **e-commerce support**, and had to work remotely (a situation HP expects to continue) (p15) – where necessary, HP paid for staff to have **suitable IT facilities at home** (p15)

New inventory management system

With **fewer stockouts**, HP believes it added **£450,000 to revenue** (p15) – this was **less than anticipated** but still good (p15) – small enhancements were made to **keep up with competitors** as **HP's online sales systems** were **slower** and **less efficient** (p15) – **further investment** will be needed in future (p15) – HP estimates that it **lost around £600,000 of revenue** in the year through **online systems issues** (p15)

Review of YE 30 June 2020

Relative performance

Branch revenue was **virtually unchanged** but **online** sales grew **25%** so **total revenue** was **still an impressive £29.6m** (p15)

There was **marked disparity** between the **2 divisions** (p15) – **RH** managed a **10%** year-on-year revenue **increase** but **BCT** revenue **fell** by **4.2%**, partly reflecting a brief pause in small-scale refurbishment work by homeowners (p15)

Branch months and branch performance

With 2 branches open for 10 months and 6 branches open for 11 months, there were a total of **86** branch months for the year (p15) $((2 \times 10) + (6 \times 11) = 86)$

Average branch revenue per month was up **only slightly for the year** (p15) – HP is conscious that this figure is **"flattening"** (p15)

All branches (other than Liverpool, which had been open for only half of the previous year) suffered an **absolute drop in revenue**, ranging from 1.4% (Preston) to 6.9% (Burnley) (p15)

Profitability and cash flow

The disruption in finding new ways to work (especially in June) affected **GP%**, which fell to **19.1%**, which is **still respectable** (p15) – HP had to **put on hold its plans to open** new branches (p15)

The shift to **online** sales in YE 2020 also caused relative increases in **distribution** and **administrative** expenses, partly **offset** by **savings from the new ERP system** (p15)

At the start of the year, HP launched an **incentive** scheme for branch, warehouse and e-commerce staff: the total payment under this scheme was **£80,000** (p15)

As a result of reduced capital expenditure and the challenges faced, HP reported a **positive cash flow**, enabling the **overdraft** to be cleared (p15) – **tight monitoring** of working capital is **important** (p15) – there was only a **slight deterioration** in **trade receivables days**, partly as a result of declining revenue towards the end of the year (p15) – **some customers are falling into difficulties and so HP will need to keep on top of credit control** (p15)

There was **little change in inventory turnover** but **some product lines** were **beginning to move slowly**: HP will continue to **monitor** this closely (p15)

Background

HP operates in an industry, which by its nature, faces **numerous risks** (p35) – the **severity** of these risks **varies** over time (p35) – **twice per year**, the board evaluates the **risks** and **plots** them on a **risk tracker diagram** (p35)

Risk 1 **Adverse market conditions (p35)** (Likely / Major Impact (p35))

HP's financial performance is affected by **house price inflation**, activity in **construction**, renovation and home-buying, **consumer confidence**, variations in **weather** (p35) – **government housebuilding schemes** could **cease** (p35)

Mitigation: adapt through **cost reduction**, **varying channels** to market, lower capital investment, having a **wide range of customers** and products (p35) – diversifying customer types (for example, engaging more tradespeople) (p35)

Risk 2 **Competition (p35)** (Unlikely / Major Impact (p35))

Manufacturers opting to **deal directly with end-users**, customers buying through a **range of channels**, emergence of **online-only** merchants, CMA market challenges (p35)

Mitigation: **varied customer base**, **competitive pricing** (with trade discounts), monitor **trends** and adapt strategy (expand online offering) (p35) – HP believes it acts **honestly and fairly** so is **not subject to a CMA challenge** (p35)

Risk 3 **Negative liquidity and cash flow (p36)** (Possible / Minor Impact (p35))

If revenue declines, customers **struggle to pay**, **supplier terms tighten**, **inventory** becomes **unsaleable** or major capital investment is required, HP may struggle unless it takes out expensive finance (p36)

Mitigation: monitor **day-to-day** needs, **flexible overdraft** (p36) – **good relationship with its bank** so has access to funds in an emergency (p36) – **cleared overdraft** by June 2020 (p36)

Risk tracker (July 2020)

Risk 4 **Loss of major customer (p36)** (Possible / Minor Impact (p35))

Hard to **replace quickly** but HP has suffered **no significant customer losses** (p36)

Mitigation: diverse customer base with **no single customer** contributing **more than 5%** of revenue, strong relationships, close contact at board level, monitors credit status (p36)

Risk 5 **Loss of major supplier (p36)** (Unlikely / Moderate Impact (p35))

HP's business is crucially dependent on **regular availability** of certain product lines (p36) – shortages would be hard to rectify (p36)

Mitigation: products are sourced from **several** high-volume suppliers, giving flexibility and reducing exposure (p36) – HP monitors **financial status** of **all major suppliers** (p36)

Risk 6 **Cybersecurity and data protection (DP) (p36)** (Possible / Moderate Impact (p35))

Impact on **day-to-day operations**, **profit**, **reputation** and **customer relationships** (p36) – serious consequences if fails to comply with **DP** law (p36) – **disruption** or **loss of credibility** among customers due to outages (p36)

Mitigation: back-up policies, staff training, monitor systems access, report immediately, maintenance contracts with IT providers, **ERP project to eliminate outages** (p36)

Risk 7 **Health and safety (H&S)** (Negligible / Moderate Impact (p35))

Large machinery, **moving vehicles**, **heavy materials**, **hazardous** substances, exposing HP to **major financial losses** and/or **legal liabilities**, with impact on prospects and reputation (p36)

Mitigation: named **Health and Safety Manager** liaises as necessary with lawyers/other professionals and oversees training in and compliance with published H&S Policy (p36)

Risk 8 **Slow-moving, damaged or obsolete inventory** (Unlikely / Minor Impact (p35))

Certain products may **cease** to be in demand (p36) – **impairment charges** may be required in the **accounts**, affecting financial performance (p36)

Mitigation: focused **research**, astute **selection**, effective **inventory** management, sell relevant products, maintain suitable **inventory** levels, monitor **competitors** (p36)

Industry context

The quality of the **workforce** is **vital** in an industry where **repeat business, long-term relationships** and **loyalty** are heavily reliant on **high-quality customer service** and staff who are polite and knowledgeable, which is not easy with so many products on the market (p9)

Payroll costs for customer-facing staff typically represent around **15%** of revenue (p9)

Most employees are engaged in **manual** tasks, some of which are gradually becoming **redundant** because of the growing **automation** of warehousing and other systems (p9)

Reluctant to lose staff

HP rejected the **Zenith** ERP Phase 1 proposal partly because HP was **reluctant to lose staff** (p31)

Strategic plan point 3

HP must retain **high staff morale** (p37) – HP will need to be **innovative** (for example, through **flexible** home working, regular conference calls and by setting up a support network to help staff facing **mental health challenges**) (p37)

HP approach and policy

HP prides itself on selling **quality** products at **competitive** prices, supported by **experienced** staff (p23)

Staff receive **regular training** and there is an annual dinner every January at which awards are presented for outstanding examples of customer service (p23) – the **new ERP system** should enable further improvements (p23)

HP also attempts to **retain customers** through the **expertise** of its **branch staff** and **monthly free workshops** at 3 of its branches where customers can see products being demonstrated (p23)

Staff **development** and **retention** are key (p25) – through a twice-yearly appraisal process, managers assess the needs of employees to identify training requirements and unrealised potential (p25) – HP offers a **clear promotion structure** rewarding exceptional performance (p25) – most branch **managers** have been **promoted internally** (p25) – others have moved from rivals where the pay and working conditions were inferior to those of HP (p25) – when seeking new staff, HP does not use recruitment agencies as it prefers to advertise vacancies on its website, social media and in popular trade magazines (p25)

HP seeks to provide a **happy work environment** (p25) – employees are encouraged to **report immediately** to their managers any instances of **inappropriate behaviour**, whether by colleagues, customers or others (p25) – HP also publishes on its website its **Modern Slavery Policy** and **Equal Opportunities Policy** (p25)

Paradigm Shift Financial Training comment: the testimonials provided by **Elevant** and **Orko** are clear about the **importance** of friendly, helpful, experienced and knowledgeable **staff** to the **relationships** with these **significant RH customers** (p27, p28)

Strategic plan (prepared by the HP board, July 2020)

Context

At the **start of July 2020**, following a **month** in which they were shut, **all 8 branches were reopened** (p37) – **further temporary closures** could be **required** in **future** (p37)

HP has witnessed **impressive growth** in **online** sales (p37) – the small enhancements made to systems have brought in a number of new customers, some of whom seem likely to **generate significant repeat business** in the months and years ahead (p37)

HP expects the housebuilding and home renovation market in the **north-west** (the main driver of the industry generally and HP specifically) to **remain strong** (p37)

This is helped by the **continued availability** of UK **government incentives** for homebuyers and also by growth in **niche** sectors, **notably** properties for the **elderly (care homes, retirement villages)** (p37)

There has been a **decline** in activity across **non-residential building sectors** (offices, retail and education) but the **vast majority** of HP's customers are **not** involved in these so HP has **not** been **significantly affected** by the **decline** (p37)

HP believes that the above context, coupled with HP's policy of reinvesting profits in the business, controlling working capital and generally good financial management, has put HP in a **stable financial position** (p37)

1. Price increases, margins and buying groups

There are signs that over the coming year, the industry will experience **sizeable price rises** for some products because of **shortages** (p37) – HP will need to find a way to protect **margins** (p37) – in addition, **long lead times** have started to occur in a number of **key product lines** and HP does **not** always find it **easy** to source **alternative suppliers** (p37) – joining a **buying group** could help to limit the impact of these issues by giving greater **flexibility** (p37)

2. IT and ERP

HP must ensure that its **IT** systems continue to be **reliable** and up to date, notably including those which support **e-commerce**, an area in which HP can quickly **gain** or **lose competitive advantage** (p37) – HP must also maintain **strong relationships** with customers and find **creative new ways to engage** with them and increase sales, especially **online-only** customers (p37) – HP's **ERP project** will be **key** (p37)

3. Staff morale

HP must retain **high staff morale** (p37) – HP will need to be **innovative** (for example, through **flexible** home working, regular conference calls and by setting up a support network to help staff facing **mental health challenges**) (p37)

4. Costs and inventory

HP must continue to **monitor costs** and **inventory levels** at **branches** and its **warehouse** (p37) – HP will need to take steps to **rationalise** the product portfolio, aware that some items are **not profitable** and that the **storage space** they occupy is **out of proportion** to the **sales** that they generate (p37)

5. Upgrade and expansion of click-and-collect

In the current environment, HP has **no plans** to **open** any new branches (p37) – HP will **continue its upgrade programme** but may also need to **reduce the size of some branches** if the trend towards a **higher proportion** of sales being made **online continues** (p37) – this might also mean **expanding click-and-collect** locations and/or **building additional storage facilities**, with **online sales** now being made **throughout the region** (p37)

See also our Buying groups page (page 7 of this Exam Room Pack)

Suppliers

HP sources its building supplies from a **wide range** of suppliers **all** located in the **UK** though **not necessarily in the north-west** and **some** are based **several hundred kilometres away** (p33) – **some** suppliers are **more recent** trading partners and **others** have been used on an **occasional basis** when a specialised product has been required at **short notice** (p33)

The **number** of **suppliers** partly reflects the number of **product lines** sold by HP (p33) – for **some** products, such as **bricks** and **cement**, it has **only 2 or 3 suppliers** (p33)

Some suppliers provide **over £1 million** of goods to HP in a **year** (p33) – before taking on any **larger** suppliers, HP's head office team carry out **due diligence** to ensure that they are **financially stable**, **treat their employees fairly** and can **supply the goods required by HP** on the **agreed terms** and that the goods meet the **most rigorous quality and safety standards** (p33) – the **due diligence** also covers **sustainability** in relation to **products supplied**, **energy efficiency** in the **production process**, and **method of delivery to HP** (p33)

Once a company has become an **established large supplier**, HP **repeats** the due diligence (p33) – it has increased the frequency from yearly to **twice-yearly**, combined with a **more general monitoring of supplier performance** (p33) – this has been a **challenging** and **time-consuming exercise** but a valuable one as it has revealed issues such as **potential fire hazards** (all inventory returned and HP **ceased** using supplier), **halving of payment terms** (HP settled its account and **ceased** using supplier) and **reduction in delivery vehicles/drivers** ahead of an economic downturn (HP **ceased** using supplier) (p33, p34)

% share of product purchases by supplier 2020 (value)

Graeme	5%
Oxlite	6%
Rustan	9%
Trindle	18%
York	11%
Zello	7%
All other	44%

Customers often make **very big orders** and ask for a delivery to be made **direct** to their **own premises** or to a **construction site** (p34) – procedures are in place to ensure the goods are **delivered intact** and that they can be **safely secured** and **stored** (p34)

Many of the goods supplied by HP are derived from **natural substances** (p34) – the prices of these commodities **fluctuate** and, as a result, the prices that HP pays for its goods can **sometimes increase without warning** (p34) – it is often **not possible** for HP to **pass on** such increases to customers, and this inevitably reduces **profit margins** (p34)

Other suppliers

HP has **significant relationships** with a **wide range** of other suppliers for goods and services, relating to both capital and revenue expenditure (p34) – the main ones are listed below (p34):

Category

Supplier(s)

Vehicle purchases, servicing, repairs and maintenance

Panthus; ZigZag Motors

IT systems, equipment, repairs and maintenance, back-up

Grossmark; TopTech

Fixtures and fittings (e.g. shelving)

Harris; Thistle; Taylors of Warrington

Utilities (water, electricity, gas)

North West Energy

Other suppliers also include a **range** of **professional services** firms e.g. **lawyers**, **accountants** and **payroll processors** (p34)

Trade receivables issues

Monitoring (Risk tracker Risk 4)

HP regularly **monitors** the **credit status** of key customers and endeavours to ensure that payment terms are agreed and adhered to (p36)

There are **no large overdue receivables** (p36)

Red flags

In YE 30 June 2018, HP improved its computer systems by introducing **red flags** that showed when a receivable reached **60 or 90 days overdue** (p13) – this led to the **recovery** of some **large balances** and a **fall in trade receivables days** (p13)

Standard credit terms

Credit terms of **30** days are **typically given** to **all** customers in **both divisions, whether buying at a branch or online**, but these terms can be **varied** in **exceptional** cases (p25)

YE 30 June 2020 comment

HP was pleased that there was only a **slight deterioration** in trade receivables days (p15) – this was **partly** the result of **declining revenue** towards the **end of the year** (p15) – HP is **acutely conscious** that some **customers** are **falling into difficulties** and that HP will need to **keep on top of credit control** (p15)

YE 30 June 2020 impairment charge

Trade receivables are stated **after impairments** for amounts considered **irrecoverable** (p21) – **impairment charges** are recognised in **administrative expenses** (p21) – the charge for **YE 30 June 2020** was **£31,000** (p21)