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| **MODEL ANSWERS – KNOWLEDGE TEST** | |
| Qualification | 103150 OC: Retail chain store manager |
| Knowledge module | KM07 Concepts and principles of improving financial performance  NQF5 Credits 3 |

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| Total possible marks |  | Minimum marks required (80%) |  |

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| **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **GUIDELINES FOR ANSWER** | **MARKS** |
| KM07 IAC0101 | 1. Describe the goals of financial management in a retail store | * The primary goals of financial management centre around both short-term and long-term activities that seek to maximise value creation from financial resources. * The long-term objective of financial management is to help the company maximise profits. | 2 |
| KM07 IAC0102 | 1. Explain the principles of budgets | |  |  | | --- | --- | | **Alignment with goals** | The store’s budget should be based on plans to ensure that the resources that are required to manage the store are available. | | **Staff involvement** | Participation of staff members in the budgeting process will motivate them to strive hard to achieve budget. | | **Budgeting is a tool of control** | Budgeting is a tool of control since it is monitored both in terms of sales and expenses. | | **Expense tracking** | Continuously evaluating the expenses is important part of effective financial management. | | **Proper documentation** | The basis on which the budget should be documented, together with the actual budget, so that it is easy to know how the budget was prepared. | | 10 |
| KM07 IAC0102 | 1. Explain what a budget is | A ***budget*** is a plan expressed in numerical terms | 2 |
| KM07 IAC0103 | 1. Describe two methods of budgeting | Two of the following methods:   |  |  | | --- | --- | | **Incremental** | Incremental budgeting takes the previous year’s actual figures and adds or subtracts a percentage to obtain the current year’s budget.  It is the most common method of budgeting because it is simple and easy to understand. | | **Activity based** | Activity-based budgeting determines the amount of inputs required to support the targets or outputs set by the company.  For example, if a company sets an output target of R100 million in revenues, the company needs to first determine the activities that need to be undertaken to meet the sales target, and then find out the costs of carrying out these activities. | | **Zero based** | Zero-based budgeting is one of the most commonly used budgeting methods.  It starts with the assumption that the budget is zero and must be rebuilt from scratch. | | 6 |
| KM07 IAC0104 | 1. Explain 3 types sales reports in retail | |  |  | | --- | --- | | **Sales summary** | A sales summary report provides an overview of your sales for a given time period.  The sales summary report provides a more macro view of sales, for example, overall turnover and gross profit for a giver period – day, week, month or year. | | **Store sales reports** | Store sales reports can be printed per hour, per day, per week, per month and per year, depending on what the chain store manager wants to know and evaluate.  The ability to view retail sales reports by date ranges as well as times, down to the hour, can help the chain store manager compare the store’s sales during various times of the day, week, month and year.  Information that the store sells very little between 10 a.m. and 12:30 a.m., for example, might be helpful in staff scheduling, cutting back on staff in the mornings. Likewise, finding out the store’s sales are tripled during November and December assists with knowing how to increase staff members to be scheduled during those months. | | **Individual sales reports and targets** | Point of sale (POS) software often includes the option for sales targets based on employee.  Individual sales reports enable a manager to keep an eye on the salespersons and show if they are achieving their sales objectives.  Individual sales reports for employees are helpful. Finding out who the Number 1 seller is, can help the chain store manager allocate bonuses fairly. It also helps with identifying weaker salespersons, giving the chain store manager the opportunity to supply these staff members with additional training.  The ability to assign sales targets and then track results is especially helpful for chain stores that operate with commission-based staff. Keeping track of commissions is easy with a POS system that tracks targets as well as individual sales reports. | | 6 |
| KM07 IAC0104 | 1. Explain 5 types of inventory reports in retail | |  |  | | --- | --- | | **Inventory on hand** | This report shows how many product units you are in the store. It also shows the current stock value.  That information tells the chain store manager much capital is in the store’s inventory, which in turn can help in in demand forecasts and planning replenishment. | | **Low stock** | Setting a re-order point for all products helps with identifying which products should be replenished**.**  Looking at low stock reports on a regular basis can also enable the chain store manager to spot patterns around which products are constantly running low. If a particular item is always showing on low stock reports, that could indicate the need to increase order quantities. | | **Product performance reports** | With most POS software systems, it is easy to identify top selling items. However, items that sell in the largest quantity are not necessarily the ones providing the most profit.  These reports provide itemised cost and profit analysis. They break down sales in terms of the itemised cost, retail markup percentage or amount, and profit.  This information makes it possible to find the most profitable inventory items as well as those that do not provide satisfactory profit.  These types of reports can help chain in making decisions about adjusting prices, overstock and dead stock. | | **Low stock reports** | Inventory management reports are used for maintaining existing inventory. They may also highlight other aspects, such as the cost of damaged goods or the quantity of stock that had to be returned to suppliers because of poor quality.  Most POS systems also have automatic e-mail or alerting options based on inventory numbers, so the chain store manager is informed when certain stock items are running low, so that stock replenishment can be done timeously. | | **Shrinkage reports** | Shrinkage reports can help the chain store manager monitor shrink rates over time and determine if there is a bigger problem that needs to be addressed. | | 10 |
| KM07 IAC0102 | 1. Explain promotional sales reports | Promotional sales reports measure the performance of promotional efforts.  It shows all the sales where the customer is given a promotional discount, or the profits generated by promotions. | 2 |
| KM07 IAC0201 | 1. Explain what the gross profit ratio is | The gross profit margin ratio:   * measures the percentage of each sales Rand remaining after the business has paid for its goods. * gives the user an indication of the operating income of the business; and * affords the user insight into the efficiency of management in respect of its buying policy and the general administration of merchandise being purchased including control of stock and selling activities | 3 |
| KM07 IAC0201 | 1. Explain what the net profit ratio measures | The net profit ratio measures the difference between what the business receives in gross income and what it spends in the process of conducting business. | 3 |
| KM07 IAC0201 | 1. Explain what the current ratio measures | Current ratio provides an indicator of the extent to which the claims of short-term creditors are covered by assets that are expected to be sold soon. It is, therefore, the ***most commonly-used measure of short-term solvency of a business***. | 2 |
| KM07 IAC0202 | 1. Explain what opening inventory on a retail chain store’s income statement is and how it impacts on the bottom line | Opening inventory is the value of stock on hand at the beginning of the time for the income statement.  Opening inventory is used, together with closing inventory, to calculate the Cost Of Goods Sold (COGS).  *The impact on the bottom line:* If there are any errors in calculating inventory, there would be cascading effects on COGS, profits and income. | 3 |
| KM07 IAC0202 | 1. Explain what closing inventory on a retail chain store’s income statement is and how it impacts on the bottom line | This is the cost of stock on hand at the time of the income statement. The value of the closing inventory.  *The impact on the bottom line:*   * Inventory is an asset and its ending balance is reported in the current asset section of a company's balance sheet. * If the ending inventory is overstated, cost of goods sold is understated, resulting in an overstatement of gross margin and net income.   Also, overstatement of ending inventory causes current assets, total assets, and retained earnings to be overstated. | 3 |
| KM07 IAC0202 | 1. Explain what purchases on a retail chain store’s income statement is and how it impacts on the bottom line | Stock purchased impacts on the bottom line.  *The impact on the bottom line:* If too much stock was purchased during the period of the income statement, there will be an overstock situation, limiting the amount of operating capital that is available. | 2 |
| KM07 IAC0202 | 1. Explain what revenue on a retail chain store’s income statement is | The money earned through sales | 1 |
| KM07 IAC0203 | 1. Explain the difference between fixed and variable costs are. Give two examples of each | **Fixed expenses:**An expense that does not change from time period to time period. For example, the monthly store rent may be R20,000 per month.  Fixed expenses do not depend on consumption of a good or service. Fixed expenses are usually paid on a regular basis, such as week to week, month to month, quarter to quarter or year to year.  Typical small business fixed expenses are charges for rental, internet access, payments on loans and insurance.  **Variable expenses**: Variable costs are those that respond directly and proportionately to changes in activity level or volume, such as utilities (water, electricity and waste removal), hourly wages, telephone, and packaging supplies. | 6 |
| KM07 IAC0204 | 1. List and describe 4 controllable expenses at retail chain store level | Four of the following:   * [**Advertising**](https://www.accountingtools.com/articles/2017/5/7/advertising-expense). This is a voluntary expense. Where advertising is de-centralised, the chain store manager can control the cost by deciding on the amount of advertising to do and the channels to be used. * **Materials** such as cleaning products. Although cleaning materials are important, wastage should be identified and controlled. * **Donations.** Where chain store managers have discretion to make donations within the local community, this is an expense that should be controlled. * **Wages** paid to temporary (casual) staff. This is controllable through effective scheduling of complementary staff. * [**Office supplies**](https://www.accountingtools.com/articles/2017/5/13/office-supplies-expense). This is an expense where wastage often takes place. It is a controllable expense. | 8 |
| KM07 IAC0301 | 1. Describe shrinkage in a retail store | * The variance between theoretical and actual inventories. Losses due to a combination of supplier fraud, process failures, internal theft and external theft. (ECR Europe) * Inventory losses through theft, damage, mis-measurement and paper work errors realised after a physical inventory that shows a difference between the recorded accounting value of inventory from purchases and receipt of goods and the value of the physical inventory on hand as a percentage of sales for the period. (Deloitte) * The loss of products from inventory due to shoplifting by customers, employee theft, damaged and spoiled products that are thrown away, and errors in recording the purchase and sale of products. A business should make a physical count and inspection of its inventory to determine this loss. | 3 |
| KM07 IAC0302 | 1. List risk of losses in retail | * ***Insufficient security***, ***supervision or access control*** * ***Incorrect procedures***, for example not immediately moving frozen food or highly perishable products such as milk and ice cream to the correct storage or display area; stacking stock incorrectly for example placing heavy boxes on top of lighter boxes with vulnerable products such as potato crisps * ***Administrative error***, for example when capturing stock or recording transactions at the point of sale | 3 |
| KM07 IAC0301 | 1. Explain the impact of shrinkage and losses in retail | 10 marks for 10 points   |  |  | | --- | --- | | **Lost revenue** | * Shrinkage amounts to lost revenue. * Inventory losses have a large impact in the retail industry. It is estimated that shrinkage and losses cost retail around $100 billion, that is around R1,600,000,000 (R1,600 million) a year worldwide. * For most retailers, those losses account for just under 1.8% of sales. For fashion and accessories retailers, the shrinkage rate can reach as high as 2.43%. | | **Decreased purchasing capacity** | * Lower revenue causes decreased purchasing capacity. * This may result in stockouts, leading, in turn, to lost selling opportunities, dissatisfied customers and loss of customers. | | **Lost profitability** | * Profit margins in retail are “razor thin” because of very strong competition. * Any losses impact on profitability. | | **Lower value for shareholders** | * Shrinkage is reported on financial statements which must, in the case of companies listed on the stock exchange, be published and distributed to all shareholders. * Over time, shrinkage erodes revenue and profitability, leading to lower returns for shareholders in the company. * Shrinkage and loss may also cause the company’s shares to drop in value. | | 10 |
| KM07 IAC0303 | 1. Describe the various types of shrinkage in a retail business | |  |  | | --- | --- | | **Employee theft** | In retail, theft is defined as taking an item that has not been paid for.  Internal or employee theft is, reportedly, accounting for about half of all retail shrinkage.  Internal theft incidents occur when staff members steal or misappropriate stock or money.  Types of employee theft include fraudulent use of discounts, fraudulent refunds, leaving items out when recording sales, misappropriating credit cards and taking cash from the till. | | **Shoplifting (external theft)** | Shoplifting includes both straightforward shoplifters who steal items and more complex schemes like returning stolen items for store credit or even cash.  Shoplifting is one of the leading causes of shrinkage and losses, as explained earlier.  Customer theft occurs through concealment, altering or swapping price tags, or transfer from one container to another. Customers may also attempt to return stolen goods or imitation designer products to receive cash.  Shoplifting can be planned or spontaneous.  Organised Retail Crime (OCR), on the other hand, is a planned form of theft involving two or more participants. | | **Vendor fraud** | A small percentage of shrink is due to vendor fraud.  Retailers report that most vendor fraud occurs when outside vendors come into a store to stock inventory, or during delivery processes.  For example, convenience store inventories are checked and monitored by the vendor. Whether it is failing to provide as many units as invoiced, or stealing of other products, vendor fraud can cut into the bottom line.  Vendors involved in fraudulent activity may even collude with the business’ employees to help them navigate through the company’s stock receiving controls.  This is called “sweethearting”. Sweet-hearting takes place when the people doing the delivery collaborate with the store’s staff to steal stock and share the “profits”. | | **Administrative error** | Administrative errors, or paper shrink, contribute to almost 19% of a retailer’s shrinkage. Businesses which rely on manual processes and systems are more susceptible to this type of shrink.  Simple pricing mistakes due to mark-ups or mark-downs is one form of administrative error.  Poor record keeping and inventory management cause shrinkage.  Administrative errors may be the result of improper training, overwork, or simple carelessness. Examples include mislabelling or incorrectly pricing merchandise. | |  |
| KM07 IAC0304 | 1. Discuss methods for preventing losses other than theft | 6 marks for 6 points mentioned   |  |  | | --- | --- | | **Damage and expiry** | Do not entertain customers to consume edibles or juices in garment stores.  Ensure shop floor is not slippery.  Educate staff on handling various types of products according to product characteristics.  Ensure first-in-first-out (FIFO) procedures are followed in the store but also in the stockroom.  Improve demand forecast methods to prevent overstocking.  Do not order shelf-life products in excess. Keep limited “safe” stock. | | **Vendor (supplier) fraud** | Ensure products are scanned and checked while GRN forms (goods received note) are completed.  Ensure that invoice matching is accurate against purchase order, supplier invoice and GRN and that any discrepancies are highlighted and resolved before payment. | | **Administrative error** | Validate mark-up and mark-down of prices.  Ensure that merchandisers verify price changes in the system verified before applying changes.  Ensure maintenance of registers for all stock movement. | | 6 |
| KM07 IAC0305 | 1. Describe methods for detecting and preventing shoplifting | 8 marks for 8 points mentioned   |  |  | | --- | --- | | **Put employees on alert** | Train staff members on ways to prevent shoplifting and the signs to look for.  These include a friendly, helpful approach and lots of eye contact.  Also educate them on the costs of theft to the business, how it affects them, and the role they can play in preventing it. | | **Implement security measures** | Install security cameras.  Hire a security guard.  Put security tags on high-value items and mirrors in aisles for greater visibility.  Install security mirrors, which can serve as inexpensive yet effective tools for spotting shoplifting and other suspicious activities in “blind spots”. | | **Check store layout and merchandise placement** | Put expensive and small items that are easily concealable in more conspicuous places or inside a locked display case.  Arrange product displays so that it is noticeable when an item is missing. | | **Secure high-risk stock** | Electronic article surveillance (EAS) is the popular method of attaching security tags to items. These systems use electromagnetic or RFID scanners to detect items from which the tags were not removed before the item leaves the store. A cashier must deactivate the tag at the point of sale. If it is not deactivated, it sets off an alarm when someone removes the product from the store.  Display high-ticket items like electronics and jewellery in a locked display case. Control access to the keys. | | 8 |
| KM07 IAC0306 | 1. Describe methods for preventing employee theft | |  |  | | --- | --- | | **Procedures for handling of cash** | * Implement secure processes for receiving and handling cash as well as cash-up procedures. * Implement and enforce procedures for refunds and returns, with appropriate authorisation measures. * Implement additional security measures such as security cameras above every point of sale pay point if such measures are necessary. * Ensure the POS system requires staff members to log on. | | **Prevent theft of stock** | * Implement a buddy system. Employees who are stealing inventory often hide items in the trash to steal at the end of the day. The chain store manager can prevent this by requiring employees to take out the trash in teams and frequently switching the teams to avoid co-conspirators working together. * Inspect employees’ handbags, backpacks or other bags before they leave for the day. It is a simple, but effective, way to deter inventory theft. * Probably the most theft of stock occurs in or on its way to the stockroom. Employees may steal inventory before it reaches the stockroom. Require supervisors to be present when taking delivery of inventory and to inspect shipments before signing for anything. * Keep the stockroom locked and only allow authorised entry. | | 10 |
| KM07 IAC0402 | 1. Describe 8 of the following areas of risk in retail:  * Strategic * Compliance and regulations * Operational * Financial * Technology * Data * Talent * Culture/reputation * Consumer expectations * Inventory management * Competition | Learners should describe 8 of the following:   | **RISK AREA** | **DRIVERS (RISK FACTORS)** | | --- | --- | | **Competition** | Competition is stiffer than most people think it is.  A number of factors impact on growth and sustainability in retail. Competition is brutal.  The risk factors are:   * Lack of innovation * Inability to adapt the business model * Ineffective inventory lifecycle management * Imbalance between establishing customer-centricity and brand loyalty (which is receiving the most focus – customer-centricity or building the brand?) * Inability to adapt to the changing consume market * Too much capital spent on trying to make sure that a business, system, etc. continues to operate, even if it does not make much progress * Following the market versus leading | | **Consumer expectations** | Consumer expectations should never be ignored.  Consumers are drawn to retailers who focus on the customer experience, making the experience of browsing, shopping, discovering and purchasing pleasant, efficient and cost-effective.  Consumers are still making their purchasing decisions on the following factors:   * Product * Price * Availability * Customer service * Ease of interaction * Brand loyalty   **Risk factors:**   * Product and price have become commoditised (everybody sells the same products at the same prices – no unique products) * Consumers are educated and have more information about the product than the retailer * Too many choices erode brand differentiation * Inadequate focus on customer service and ease of interaction * Customer experiences are not meaningful, memorable, shareable and personalised | | **Balance sheet and audit** | The balance sheet should be kept “clean”.  Many retailers allocate vast amounts of money to servicing their debt, as opposed to activities to acquire customers and upgrade services or ensuring that adequate short-term working capital is available.  Inventory levels that are out of sync with the rest of the balance sheet, is another threat.  **Risk factors:**   * Runaway debt loads * Inability to invest for the future * Non-competitive pricing | | **Business transformation** | Planning, flexibility and agility are keen to successful business transformation.  Because of rapidly changing consumer markets, many chains implement business transformation strategies.  **Risk factors:**   * Inefficient project sequencing * Failure to identify potential bottlenecks early enough * Failure to secure buy-in form the entire organisation | | **Organisational structure** | Organisational structure should be made a driver of growth, not an obstacle.  Many retailers are still structured in the way they were structured 15 to 20 years ago.  Organisational structure needs to be tweaked for changes in the consumer market.  **Risk factors:**   * Excessive bureaucracy * Lack of single organisational vision * Perpetual short-term survival mode | | **Inventory management and working capital** | The question is: Is inventory working hard, or is it hardly working?  One of the keys to flourishing in the current economic reality is to effectively manage the principle asset of retail: inventory.  It is important to focus on controllable areas t impact positively on working capital.  Consumer expectations (an aspect listed earlier in this table) are demanding more flexible and accurate management of product, including:   * The ability to know the level of inventory at all times * Real-time updates on inventory levels * Omnichannel capability (integrating the different methods of shopping available to consumers, for example, online, in a physical shop, or by phone)   **Risk factors:**   * Not understanding the SKU profitability (profitability of each item in the inventory) * Not understanding shrink * Not understanding handling costs of items * No product life cycle methodology * Leakage across the supply chain | | **Cyber security** | Cyber security is an ever-growing challenge for all business.  Oversight over cyber security has become a necessity and not only a best practice recommendation.  **Risk factors:**   * New and emerging security threats * The readiness of the organisation’s cyber security programme | | **Technology disruption** | The company should make sure that technology strategy is aligned with the business strategy.  Technology disruption continues to be a threat for retail.  **Risk factors:**   * Spending on technology that is not needed * Continuing to pay for old, out-of-date systems * Failure to regularly check potential areas of financial leakage in information technology, such as software licences | | **Data and analytics** | This should be turned into an asset.  **Risk factors:**   * Not aligning data strategy with the overall business strategy * Not ensuring organisational data is reliable * Lack of consistent database definitions and standards that everyone follows (sales, profit, margin) * Insignificant insights to trigger changes within the organisation | | **Compliance and regulations** | Globally, there has been an increase in regulation of retail. There is an increased focus on regulations that pertain to fraud, cyber and data security, operations, privacy of information, consumer protection, price controls, social and environmental considerations.  ***Compliance risk*** is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain products or activities of the organisation or its customers/clients may be ambiguous or untested. (bankingonline.com)  Compliance risk exposes the organisation to fines, penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.  Compliance risks can be divided into two major types:   1. Those risks associated with the need to comply with laws and regulations. 2. The need to act in a manner which investors and customers expect, for example, through ethical business practices and by ensuring proper corporate governance.   ***Legal compliance*** can include legislation and regulations on matters such as labour practices, employer-employee relationships, environmental management, occupational health and safety, corporate governance and disclosures, financial practices of financial institutions, taxation, etc.  The ***ethical health*** of a company’s culture has gained importance due to high-profile business failures where material weakness was found in the control environment.  Ethical risks include:   * *Accounting breakdowns*, including fraud, inaccurate record keeping, inappropriate record retention or destruction and non-compliance with Generally Accepted Accounting Practices (GAAP) * *Business ethics failures*, such as the exposure of confidential client information, conflicts of interest and giving and accepting inappropriate gifts * *Employment-related practices*, like equal opportunity violations, workplace and sexual harassment, employee abuse and immigration offenses * *Fair trading laws*, which cover price fixing, abuse of dominance and collusion * *Customer and workplace violations*, for example, aiding and abetting illegal customer acts and creating unsafe workplace conditions * *Product issues* such as product safety failures and intellectual property violations, e.g., patent infringement   **Risk factors:**   * Bribery and corruption legislation compliance * Credit granting legislation * Labour legislation compliance * Corporate social responsibility legislation compliance * Employment equity legislation compliance * Environmental protection legislation compliance | | **Culture and reputation** | Reputation is critical in the current economy.  Changes in delivery of product to consumers that may impact on culture and reputation include online shopping, growth of social media and access to information.  Retailers do, as a result, no longer control messaging like they did in the past with communication and marketing efforts.  **Risk factors:**   * Information available about the company on social media * Brand and reputation risk management * Employee hotline monitoring * Addressing of complaints\ * Acceptable behaviour policies relating to social media | | **Talent retention** | Talent retention strategies should centre around frontline personnel who are in contact with customers.  **Risk factors:**   * Failing to acquire required talent to be the customer’s company of choice * Not training employees, especially those who are in contact with customers | | 24 (3 marks per risk) |
| KM07 IAC0403 | 1. Describe the steps in risk management process/cycle | **Risk identification**: identifying what could prevent us from achieving our objectives.  **Risk analysis**: understanding the sources and causes of the identified risks; studying probabilities and consequences given the existing controls, to identify the level of residual risk.  **Risk evaluation**: comparing risk analysis results with risk criteria to determine whether the residual risk is tolerable.  **Risk treatment**: changing the magnitude and likelihood of consequences, both positive and negative, to achieve a net increase in benefit.  **Monitoring and review**: this involves checking for deviations from the risk management plan, checking whether the risk management plan is still appropriate and effectives, reporting on progress with the risk management plan. | 10 |
| KM07 IAC0404 | 1. Describe risk management /control strategies | |  |  | | --- | --- | | **Risk avoidance** | Risk avoidance includes not performing an activity that has risk attached to it.  An example would be not to respond to a situation where there is a high safety risk.  Although avoidance may seem to be the answer to all risks, avoiding situations may also mean losing out on potential gain, benefit or profit that may result from taking the risk. For example, not entering into a business to avoid the risk of loss also avoids the possibility of earning profits in the business. | | **Risk reduction** | Risk reduction or optimisation involves reducing the severity of the loss or the likelihood of the risk from occurring.  Quite often, risk reduction requires some kind of a trade-off. For example, fire sprinklers should reduce the risk of loss by fire as they are designed to put out a fire. However, in the event of a fire, the sprinklers may cause a greater loss by water damage. Halon fire suppression systems may mitigate the risk of loss as a result of extinguishing the fire, but the cost of installing such a system may be prohibitive.  The manager needs to find a balance between negative risk and the benefit of an activity. | | **Risk sharing** | Risk sharing involves sharing with another party the burden of loss or the benefit of gain from a risk.  Risk can be transferred to another unit or company by outsourcing an activity.  Taking out insurance is another form of sharing risk with another party. | | **Retention** | Risk retention involves accepting the loss (or benefit of gain) from a risk when it occurs.  Risk retention is a viable option for small risks where the cost of other treatments, for example, taking out insurance, would be greater over time than the total losses sustained. For example, if the cost of insuring vehicles used in armed response units are prohibitively high, the company may decide to accept the risk of not insuring older vehicles with a low market value as the cost of replacing such vehicle may be lower than the premiums paid over a year. | | **Monitoring and review** | Monitoring and review is a distinct process intended to detect change. This is necessary to ensure that an organisation maintains a current and correct understanding of its risks, and that those risks remain within its risk criteria. | | 10 |
| KM07 IAC0501 | 1. Explain what asset control is in retail environment | * Asset control means developing and maintaining a list of assets found within the chain store. * Asset control also means the practice of managing the maintenance of physical assets. | 2 |
| KM07 IAC0501 | 1. Describe the purpose of asset control in retail | The purpose of asset control and maintenance is to ensure assets are protected from loss and to help ensuring efficient store operations and customer satisfaction. | 1 |
| KM07 IAC0502 | 1. Explain the key principles of asset control in retail | |  |  | | --- | --- | | **Loss prevention** | An asset register must be maintained so that assets can be tracked, and any possible losses be identified.  Assets used for preserving the quality of stock, for example, fridges and freezers, must be maintained on a preventative and scheduled basis to prevent loss of stock (and money) due to failure of the equipment. | | **Efficient business performance** | Effective maintenance of equipment helps ensure efficient business performance such as efficient point of sale processes and availability of products, both with promote customer satisfaction. | | **Operational efficiency** | Repair costs can be reduced through proactive, scheduled maintenance of assets. | | **Reduced risk** | Consistency in controlling and maintaining assets reduce risk, thereby reducing financial losses, improving safety and minimising environmental impact. This could lead to reduced insurance premiums, which in turn, increase profitability. | | **Compliance** | Through ongoing monitoring, assurance can be obtained on the compliance with legal, regulatory and contractual requirements as well as to adherence to operational standards and processes. | | **Customer satisfaction** | Through consistent scheduled preventative maintenance, customer service levels can be raised. | | 12 |
| KM07 IAC0503 | 1. Explain the impact of asset maintenance on the bottom line | Effective asset management has a positive impact on the bottom line if:   * Assets are controlled by keeping an asset list and regular audits to prevent loss. Loss of assets imply loss of financial resources and profitability. * Assets are maintained to ensure efficient operations, which, in turn, ensure efficient operations and reduces unnecessary, unplanned repairs. This increases profitability. * Assets are maintained to ensure efficient operations which, in turn, promote customer satisfaction based on availability and quality of stock. Customer satisfaction leads to increased customer loyalty, which increases sales and profitability. | 3 |
| KM07 IAC0504 | 1. List the 5 steps for asset maintenance required by chain store managers | Asset maintenance involves 5 steps:   1. Identify assets 2. Plan maintenance 3. Schedule maintenance 4. Execute maintenance 5. Complete forms | 5 |
| KM07 IAC0601 | 1. Describe how budgets are used to analyse store performance | * The budget serves as financial planning tool. * It is, however, also a tool for monitoring and controlling financial performance of the retail chain store. * Financial analysis involves using financial data to assess a chain store’s performance and make recommendations about how it can improve going forward. * To control the budget and ensure the performance standards set in the planned budget are met, requires frequent monitoring and evaluation of performance against the budgets. * Continuous record-keeping of income and expenses provide the records used to evaluate performance against the budget. * The information is used to identify areas where poor performance affects the chain store. | 5 |
| KM07 IAC0602 | 1. Describe how comparison between actual performance against budget is used to analyse store financial performance | 10 marks for 10 points mentioned   |  |  | | --- | --- | | **Assemble data** | To conduct the comparison of actual performance against the budget, you will need the budget for the period for which the comparison should be done and the income statement for the same period. | | **Determine variances** | When comparing actual performance against budget, prepare a spreadsheet with the budget in the first column and the actual performance as on the income statement in the second column. Use the third column to calculate the variance.  The variance is the difference between the budgeted amount and the actual figures from the income statement.  For example, comparing budget data to actual performance, the month’s budgeted sales may be R500,000. The actual sales came in at R800,000, so you have a budget-to-actual variance of R300,000.  **TIP:** Drawing bar graphs are useful for visual representation and interpretation of the information. | | **Analyse variances** | Variance analysis informs chain store managers about current operations as compared to past performance.  Every variance needs to be analysed to (i) determine whether it is a favourable or unfavourable variance and (ii) establish the reason for the variance.  A budget variance is positive, or favourable, when actual revenue results are higher than budget expectations, or expenses are lower than budget.  Positive variances:   * Variances must be analysed in ways that relate directly to the line item. For example, if there is a positive sales variance, it should be researched to find out if the favourable variance was caused by higher than expected sales prices, greater sales volume, or a more profitable mix of products being purchased by customers. * If actual expenses are lower than the budgeted figure, the chain store manager should research and understand whether the cause is a one-time or infrequent event, whether the budget was based on poor assumptions, or whether a way was found to cut costs on an ongoing basis.   Negative variances result when sales fall below budget, or expenses exceed budget.  Both positive and negative variances can result from either controllable internal events or uncontrollable, often externally driven, events. | | **Explain the variances** | State the variance and the reason behind it, as well as the resulting potential or actual effect on the store’s performance.  Be wary of variances caused by poorly made budget assumptions. | | **Take action** | Knowing what has performed and what has not, managers can take reinforcing measures or corrective actions.  The purpose of comparing performance against budget is to add value to the business through better planning, monitoring, evaluating and controlling. | | 10 |
| KM07 IAC0602 | 1. Explain the purpose of comparing present against past performance | Comparisons between current performance and past performance are made to:   * Understand how performance might be improving or deteriorating. * Judge the store’s performance. * Identify unusual variances and their causes.   Companies use variance analysis to compare financial performance changes from one month to the next, or from one quarter to another, or year to year.  Comparing one month's performance to another provides some insight while assembling a trendline comparing several months' data side by side (known as "horizontal analysis”) can reveal sudden changes in performance – is the general trend steady, rising or decreasing? | 5 |
| KM07 IAC0603 | 1. Describe 3 methods for improving 4 expenses that are controllable at chain store manager level | 4 expenses, 3 methods for reducing each to be discussed   |  |  | | --- | --- | | **Strategic substitution** | Strategic substitution involves identifying strategic alternatives to reduce expenses, for example by:   * *Negotiating with suppliers* for better prices or finding suppliers that offer better prices for services such as cleaning, telephone and Internet * *Outsourcing non-value added or non-core activities* (for example outsourcing accounting instead of employing a full-time bookkeeper) * *Finding cheaper cleaning chemicals* and materials. These may be available from other suppliers at lower prices, or buying in bulk (for example a 25 litre can instead of 5 x 5 litre bottles) | | **Reducing utility bills** | In most cases, utility bills (electricity) can be reduced by making small changes, such as:   * *Switching lights off* at night and when they are not used in an area such as the stockroom and the staff kitchen * *Switching off some of the spotlights* that are not focused directly on merchandising displays * *Using the air conditioner at moderate* temperatures so that it uses less energy both during summer and winter * *Using energy-efficient light bulbs* * *Ensuring that equipment such as display fridges and freezers are well maintained* so they function most efficiently and do not waste energy | | **Reducing expenses on office supplies and equipment** | Consider the following:   * *Can you reduce the use of supplies or find better deals*? Stationery supplies are competitive in the current economy and you might find a supplier with better prices for office paper, printer cartridges, etc. * *Can you make equipment last a little longer?* Although some companies might have a policy of, for example, replacing computer equipment every three years, it might not be necessary to replace all computers at that timeframe. * *Can you reduce the use of office printing paper?* Quite often, too many unnecessary e-nails, for example, are printed when not absolutely necessary to do so. Or reports are printed paper while it is quite easy to see, for example, the day’s sales summary on a screen and entering the information on a spreadsheet rather than printing it out just to throw it away. | | **Reducing overtime pay** | To reduce overtime pay, the chain store manager could consider the following:   * *Analysing peak times and rescheduling* staff so that less overtime is worked * *Employing casual hourly-paid staff* for fewer hours during peak time * *Treating overtime as the exception* not the rule. Some employees try to work as much overtime as possible to supplement their income * *Cross-train* *staff.* By training employees to handle more than one job, you can boost your store's flexibility and avoid too much overtime. | | 12 |