

Management Case Study Examination
November 2022 – February 2023
Pre-seen material – advance copy for Tutors



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Introduction

Happy Playz is a quoted toy retailer that has a chain of retail shops. Happy Playz also sells a substantial quantity of its toys online.

Happy Playz operates in Westaria, a developed country that has a strong economy and whose citizens have a high standard of living.

Westaria's currency is the W\$. Westarian company law requires companies to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS).



You are a financial manager at Happy Playz's Head Office. Your primary responsibilities are associated with management accounting, and you report to Yongmei Qin, the Senior Financial Manager, who reports directly to the Finance Director.

The toy industry

Toys can take many forms, ranging from simple playthings for infants to sophisticated models and puzzles. Toys are essentially products that are intended to stimulate play and sometimes learning through play. This definition is broad, and it is not always clear whether it applies to certain products. Market analysts are generally agreed that “toys” fall within the following categories:

<p>Action figures</p>  <p>Action figures are models that can take many different forms, ranging from small, moulded plastic figures to larger, posable figures that can be dressed in different uniforms and outfits and equipped with accessories.</p> <p>Many action figure toys are based on characters from television series or films. Toy manufacturers often pay film producers for the right to manufacture such toys under licence.</p> <p>Action figures are not necessarily based on human characters. They can take the form of animals or alien creatures.</p> <p>Action figures are popular with children in the age group of 4-8 years .</p>	<p>Arts and Crafts</p>  <p>Arts and crafts include crayons, paints, plasticine and other products that can be used by children to create models and drawings.</p> <p>Craft toys can be designed for unstructured play. They can include large boxes of crayons or markers that use washable ink.</p> <p>Craft toys can also be used to encourage more structured creativity. Colouring books provide children with line drawings that can be filled in using crayons or pencils. Such drawings can be original, or they can be licensed images of favourite characters or scenes from television programmes or films.</p> <p>These products are usually aimed at quite narrow age groups. Children can play with crayons from the age of 18 months, and some craft toys will appeal to children as old as 10 years.</p>
<p>Building sets</p>  <p>Building sets consist of metal or plastic parts that can be used to build models. Building sets can be designed to encourage creative play, with children designing and building their own creations.</p> <p>Building sets can also be designed to construct a particular object, such as a model of a car or house. Such sets are accompanied by plans and have all the parts required to make that item. Such models are often based on characters, vehicles or locations from television programmes or films.</p> <p>Building sets are sold for children of all ages, including complicated kits that are intended to be constructed by adults. Some products are designed for play by children from 18</p>	<p>Dolls</p>  <p>There are several types of dolls that allow for differences between age groups in children and different ways to play with dolls.</p> <p>Baby dolls represent infants and are designed for play in which the doll is nurtured and cared for.</p> <p>Large dolls are between 30 and 50cm tall. They may represent licensed characters from television and film.</p> <p>Feature dolls are similar to large dolls but have an active feature, such as electronics that enable the dolls to walk, dance or talk.</p> <p>Mini dolls are pocket sized and designed to be collected or played with as a group of figures.</p>

<p>months, with large parts that are easy to handle and are safe to play with.</p>	<p>Fashion dolls are sold to be dressed and accessorised to enable play based on changing the doll's appearance and or occupation.</p> <p>The diverse range of doll types means that they appeal in one form or another to children aged from 18 months to 12 years.</p>
<p>Electronic games</p>  <p>Electronic games take the form of physical devices that have been preloaded with software that cannot be changed. Gameplay usually involves coloured lights or audio beeps.</p> <p>Electronic games are generally designed to stimulate learning by preschool children or to enable individual or group play by older children.</p> <p>Electronic games designed for preschool children tend to set simple tasks, such as identifying the colour of an object.</p> <p>Games for older children offer challenges such as remembering a sequence of flashing lights. Two or more players may compete to remember the longest sequence.</p> <p>Electronic games are a separate category from video games, such as games consoles and the software that is run on them.</p>	<p>Non-electronic games</p>  <p>Non-electronic games can take many different forms. Play often centres around a board or a deck of cards. There is usually a competitive element to the game. Some games are based on chance, some on strategic thinking and some on a mixture of both.</p> <p>Games vary in terms of the intellectual property belonging to the manufacturer. Games such as draughts/checkers are generic and are manufactured freely. Some games involve patented or trademarked elements that belong to a manufacturer. Games can also involve images based on films or television programmes and are manufactured under licence.</p> <p>Games can be aimed at the preschool market, at older children or at adults.</p>
<p>Infant/Preschool toys</p>  <p>These toys are designed to stimulate play and learning for babies and young children.</p> <p>Baby toys comprise simple items such as rattles as well as more sophisticated battery-powered products that may offer visual and aural stimulation.</p> <p>Toys aimed at children from 18 months to school age are often adaptations of other categories of toy that are designed to be played with safely. For example, action figures or dolls will have no small parts that might be swallowed. If they are licensed, they may be based on characters from preschool programmes.</p>	<p>Outdoor and sports toys</p>  <p>Outdoor toys can range from simple, generic products, such as balls to larger and more elaborate items such as swings, trampolines and ride-on vehicles.</p> <p>Generic outdoor toys are often cheap to manufacture and can offer relatively high margins to retailers.</p> <p>Sales are often seasonal, with demand peaking during the summer months.</p> <p>Outdoor and sports toys are popular with children of all ages, although individual products are aimed at specific age groups in order to ensure safe play.</p>

Plush	Vehicles
 <p>This category comprises stuffed animals and similar products. These range from teddy bears to more abstract designs.</p> <p>Many plush toys are sold to the preschool market, although there have been attempts to enhance their play value by adding movement and sounds.</p> <p>Plush toys can be manufactured cheaply. Many plush toys are generic.</p> <p>Some brands of plush toys are trademarked and are often sold to collectors.</p> <p>Some plush toys are based on characters from popular children’s books.</p>	 <p>Toy vehicles can be plastic or metal models of real or imaginary cars, trucks or buses. They can be designed to be pushed along the floor or they can be motorised. Motorised cars can be remote controlled or designed to be raced on special tracks.</p> <p>Toy vehicles can be licensed copies of real cars. They may also be based on cars that feature in television programmes or films.</p> <p>Toy vehicles are sold to a wide range of ages, from plastic models designed for preschool children to limited edition models sold to adult collectors.</p>

Branded products are sold on the basis of known and trusted brand names. Generic products are not sold on the basis of brand.

The above classification excludes certain items that could be described as toys but are often sold through specialist retailers. For example, bicycles and video game consoles are generally excluded from analyses and reports on the toy industry, even though some toy retailers sell them alongside more traditional toys.

On this basis, the Westarian toy market generated retail sales of almost W\$8 billion in 2021.






Westarian toy market by annual revenue

	W\$ billion
Action figures	0.6
Arts and Crafts	1.1
Building sets	0.4
Dolls	1.0
Electronic games	0.3
Non-electronic games	0.9
Infant/Preschool toys	1.2
Outdoor and sports toys	1.0
Plush	0.6
Vehicles	0.7
Total traditional toys	7.8

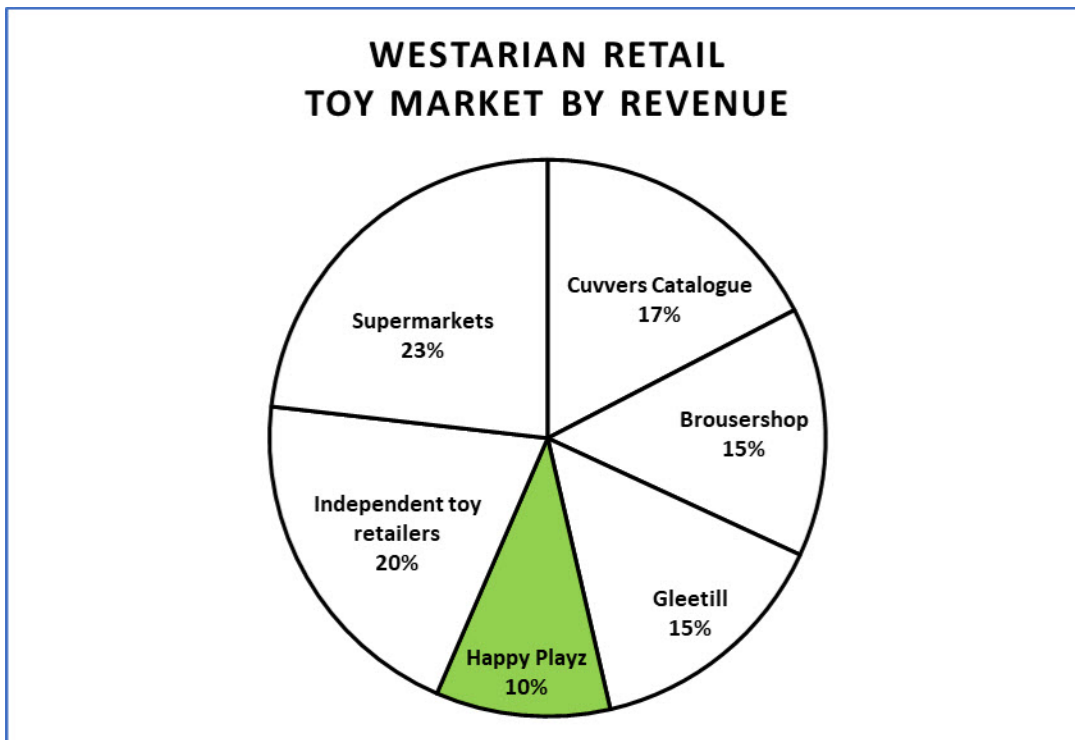
These categories do not necessarily dictate the manner in which the toys are organised and merchandised by retailers.

Westarian retail toy market

There are five main categories of toy retailer in Westaria:

<p>Independent toy retailers</p> 	<p>Independent toy retailers are generally specialised toyshops, or they sell toys alongside complementary products such as baby clothes or other goods that are intended to be used by children. Most have only one outlet.</p> <p>Independent toy retailers are often located in town centres and attract customers through enticing window displays.</p>
<p>Toyshop chains</p> 	<p>Toyshop chains have multiple branches that specialise in toys. They also sell complementary product lines, such as children's bicycles.</p> <p>The shops themselves tend to be large and laid out as toy supermarkets. They are frequently located in out-of-town retail parks.</p> <p>Westaria has two toyshop chains, namely Happy Playz and Gleetill. Both sell online as well as from their shops.</p>
<p>Catalogue stores</p> 	<p>Catalogue retailers sell a wide range of goods. Customers can select products for purchase from a printed catalogue or the retailer's website before visiting a shop to make payment and collect their selected products. These retailers do not display products in their shops. Goods for resale are stored out of sight of customers and are fetched by staff after customers have paid.</p> <p>Cuvvers Catalogue is Westaria's only catalogue retailer. It sells a huge range of goods, including toys. The company has many branches and also sells goods online for home delivery.</p>
<p>Online retailers</p> 	<p>Dedicated online retailers do not operate physical shops. Goods are chosen and paid for through their websites and are then delivered to customers' homes.</p> <p>Brouershop is Westaria's only dedicated online retailer whose product range includes toys.</p>
<p>Supermarkets</p> 	<p>Supermarkets sell a wide range of non-food items through their stores, including toys.</p> <p>Customers find it convenient to buy toys while shopping for groceries. Supermarkets often sell non-food items at a discount in order to attract customers into their stores.</p>

Westaria's retail market is structured as follows:



Collectively, the toyshop chains have the largest share of the retail market with a total of 25%, but they are struggling to maintain market share in the face of competition from the non-traditional toy retailers.

- Cuvvers Catalogue is the largest individual toy retailer, although it is slowly losing market share to Brouershop. Cuvvers Catalogue is responding by focussing more on online sales and home delivery, which suggests that the retail toy market will be driven by online selling.
- The supermarkets are a significant part of the retail market, despite the fact that they tend to offer only a limited range that is restricted to the most popular toys. A Happy Playz store has approximately 7,000 different toys on its shelves, while a major supermarket carries only 1,200.

Independent toy retailers struggle to compete against the other players in the retail market. They may only offer a restricted range of products because of the size of their premises. They do not buy in sufficient quantity to receive the same discounts as the other retailers. Their revenues are further threatened by a decline in the number of shoppers who shop in town and city centres. Some independent retailers specialise in particular types of toys, such as hand-made plush toys or wooden dolls. Those can attract a niche market and can offer a high margin.

Retailers and manufacturers

Buying decisions in the toy industry are heavily influenced by the tastes of children. The market is constantly changing, as each generation of children moves from one age group to the next. Demand for toys can be influenced by children’s television viewing habits or by the publication of popular new books. Those changes are not always easy to predict.

Toy manufacturers tend to combine the following approaches to maintain the popularity of their brands:

Incremental changes to	Manufacturers seek to maintain revenues by making incremental changes to established brands and product ranges. Many toys have been popular
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existing products	<p>with children for many years and continue to sell steadily, and manufacturers continue to invest in order to maintain that popularity.</p> <p>An existing toy might be improved by the addition of a new accessory or an additional feature. Children are keen to own the latest version of a favourite toy, so small changes can often lead to additional sales.</p> <p>Toys that are sold as a series or as a range, such as model cars, can be enhanced by replacing the least popular models with new ones. The promotion of the new models can stimulate demand across the whole range.</p> <p>Advertising and promotional activities are also kept under review. Manufacturers work with retailers to persuade them to position their products in prominent positions in their shops and on their websites.</p>
New products	<p>Most toy manufacturers aim to develop innovative new products. These generally offer a limited downside risk with the possibility of a substantial upside gain.</p> <p>New toys can be subject to market research and testing before their manufacturers decide to launch them. It is relatively unusual for a new toy to be a commercial failure. At worst, a new toy will sell for a year or two and will cover its costs before it is withdrawn from sale.</p> <p>Occasionally, new toys generate a massive demand. Manufacturers can sell as many of those products as they are able to produce. Retailers are keen to order as many copies as the manufacturer can deliver.</p> <p>The sales opportunities created by sought after toys tend to be short-lived. Competing manufacturers will often aim to launch their own versions of such toys, and so the market becomes flooded with imitations.</p> <p>Toy manufacturers will frequently attempt to persuade retailers to place large orders for toys that are due to be launched, in the hope that there will be a huge demand, but such successes cannot be predicted with any consistency.</p>
Licensed products	<p>Most categories of toy can be linked to a licensed image, such as a character from a film, television programme or a book. These can be as simple as colouring books with pictures based on a storyline or as complex as a remote-controlled vehicle that is modelled to look like the vehicles from a film.</p> <p>Film and television producers and book publishers can earn a significant amount from royalties. They usually work with potential licensees while their film, programme or book is in production.</p> <p>There have been many successful toys based on such licensing agreements.</p>

Retail toy sales follow an annual cycle. Toys sell steadily, albeit with some volatility during the first 3 quarters of the calendar year. The 4th quarter accounts for roughly 50% of annual toy sales by revenue.

Traditionally, Western children receive expensive toys as birthday gifts and also during the 4th quarter holiday season. Children also receive inexpensive toys as gifts throughout the year, or they save their pocket money to buy toys for themselves.

The 4th quarter holiday season drives much of the activity in the toy industry. Manufacturers are usually keen to launch new products at that time in order to obtain the maximum benefit from consumer spending. Retailers are keen to identify the toys that will be most popular so that they can buy inventory and prevent the loss of sales to rivals. Frequently, one of the new toys launched at this season is in such great demand that retailers quickly sell out.

Toy manufacturers exhibit their products at the annual Eastland Toy Fair every January. This is the largest and most important toy fair, and so it provides an opportunity for retailers' buyers



to meet with the toy manufacturers' marketing managers. Manufacturers demonstrate new toys that will be launched during the year and prototypes of toys that are under development.

Toy manufacturers also work directly with large retailers, including Happy Playz. Marketing managers will aim to meet regularly in order to maintain contact and in the hope of securing orders.

Retailers generally make initial commitments to order for the 4th quarter purchases at the

end of the 1st quarter. This enables manufacturers to schedule production, particularly of new products.

In addition to ordering in advance for the 4th quarter, retailers place regular orders throughout the year to replenish inventory and to acquire any promising new toys that will be launched before the 4th quarter. Retailers must also prepare for the summer months, when most outdoor toys are sold.

Licensed toys create opportunities for both manufacturers and retailers, and these can generate substantial revenue. Demand for licensed products usually peaks in response to the publicity for the launch of the film, television programme or book upon which they are based. Manufacturers who have licences will seek orders from retailers long before the launch. Typically, retailers will wish to have the toys in inventory for 6 weeks before the launch so that their promotion and merchandising can coincide with that of the film, television or book. Licensed toys can be from several different categories, so a major release can offer a welcome boost to demand during the quieter times of the year.

Happy Playz's business

History

Happy Playz was established in 1992 when its founders opened the first Happy Playz shop (store) in Westaria's Hope City. The founders focussed heavily on promotion and merchandising. The shop itself had a vibrant colour scheme that made it visible, even in a city centre shopping district. The shop concentrated on established and popular brands of toys, which were priced to match the lowest prices set by competitors. Happy Playz aimed to offer a wider range of products than competitors, so customers could browse and choose from the whole range of products offered by leading brands, not just a limited selection of the most popular ones.

Happy Playz was quoted on the Westarian Stock Exchange in 2004. The founders sold their interests in the company at that time.



Since 1992, Happy Playz has positioned all its shops in out-of-town retail parks, relocating city centre shops when necessary. These are popular with customers because they offer plenty of parking spaces, and they are located close to motorways.

Happy Playz now has 120 shops that employ 6,500 staff. Those shops are spread across Westaria. The company's Head Office is located on the outskirts of Westaria's Central City. It employs 140 staff. There is also a warehouse adjacent to the Head Office that

stores inventory until it is required in the shops or to fulfil online orders. The warehouse employs 240 staff.

Retail operations

Happy Playz's revenues come largely from the sale of traditional toys, but the company also sells video games and a small range of children's bicycles. The company may not be able to compete with specialist video game and bicycle retailers, but its customers often expect to find such items on sale and so both sell steadily.

Happy Playz's shops are laid out to encourage customers to browse and make their selections. Each shop has several aisles, each of which has racks of toys on either side. Shop staff are available to direct shoppers to the location of any given product. Staff are equipped with Wi-Fi-enabled tablets that can assist in checking inventory and product specifications. The staff are also expected to have sufficient product knowledge to enable them to advise customers and to make informed recommendations.

Happy Playz's website is used to promote products, including any special offers and promotions. Customers can select and pay for items through the website and can collect them from their nearest shop. Customers can also order goods online for home delivery. Happy Playz's warehouse acts as a fulfilment centre for online sales for home delivery. Warehouse staff pack and label ordered goods, and a third-party courier company collects online sales orders each evening and organises delivery within 48 hours.

Each of Happy Playz's shops is managed as a profit centre. Shop managers are responsible for achieving the sales and performance targets that are set by the Marketing Department at Head Office. Shop managers have limited discretion, but it has been noted that the competence and enthusiasm of individual shop managers can have a significant impact on the performance of their shops:

- Pricing decisions are made centrally by Head Office, but Happy Playz gives shop managers the authority to reduce the selling prices of specific items in response to local competition. If a local competitor is offering a particular toy at a discount, then the shop manager can create a special offer to match, or even undercut, that competitor's price.
- Sales volumes can be increased through the supervision and encouragement of shop staff. Customers are more inclined to buy if they are assisted by competent and motivated staff who take time to understand their needs and advise them accordingly. Keen managers can also encourage staff to ensure that shops are neat and tidy, with clean floors and fully-stocked shelves at all times.
- Shop managers can also draw upon their knowledge of the local market to enhance sales through merchandising. For example, the manager of a shop in a seaside town might create a display of beach toys in a prominent position close to the shop entrance.
- Vigilant managers can create systems and impose performance standards on staff that minimise inventory losses due to theft and damage. Ensuring that staff are active and engaged will discourage customers from shoplifting, while encouraging legitimate

customers to make purchases. Keeping inventory properly stacked and organised will reduce the risk of damage due to items being dropped.

Shop opening hours are set by the retail parks who lease the properties to Happy Playz. Most require their tenants to be open from 09.00 until 21.00, 7 days per week. Each shop has a manager, three assistant managers and a number of sales assistants who are responsible for operating tills, advising customers and replenishing shelves. Each shop has a staff rota that ensures that nobody works for more than 8 hours in any day and that each member of staff has two rest days each week. The rota changes from week to week, so staff must be flexible in terms of working hours and working days. The rota adjusts staffing levels to take account of expected customer numbers. Shop managers and assistant managers must also work on a rota basis, with at least one present during shop opening hours. When the shop manager is absent, then one of the assistant managers is designated as being responsible for running the shop.

Management

Each shop manager is in frequent contact with Happy Playz's Head Office:

- Revenues are recorded through the electronic point of sale systems (tills) in each shop. These transmit data to Head Office at the close of business each day. The Accounting Department at Head Office collates this information and supplies shop managers and the Marketing Department with regular reports.
- Staffing levels at each shop are set by the Human Resources Department at Head Office. Human Resources (HR) recruits staff to fill vacancies at any of the shops and advises on any HR matters, such as staff grievances and disciplinary matters.
- The Property Department at Head Office organises all services, including shop cleaning and maintenance. Facilities Management will also organise a local contractor to carry out any routine maintenance or repairs. Happy Playz owns the fixtures and fittings in its shops. The company is also responsible for most maintenance and repairs to the buildings.
- Charges for utilities, such as electricity and local property taxes, are invoiced to their respective shops. Shop managers check the accuracy of any meter readings and forward the invoices to the Accounting Department for recording and payment.

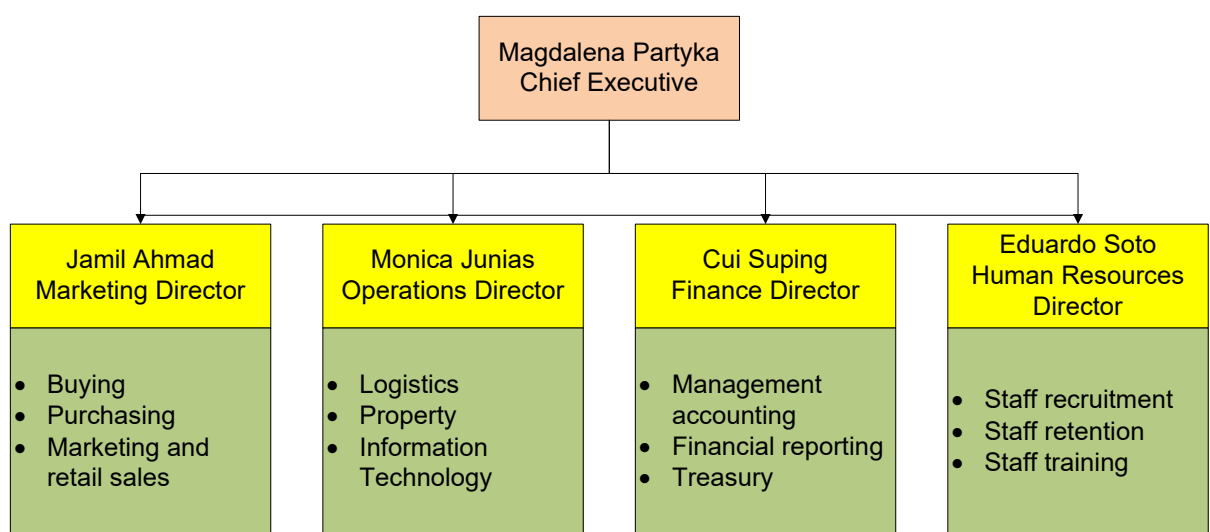
Happy Playz's Head Office is divided into the following departments:

Buying	<p>The Buying Department is responsible for evaluating new products and for deciding which new products should be purchased.</p> <p>Happy Playz's buyers attend toy fairs and visit manufacturers around the world. They study trends in the toy industry and work to ensure that Happy Playz can offer the latest and most attractive toys. Some toys are branded and trademarked and so have only a single unique source. Other toys are generic, requiring the Buying Department to choose a specific product from the many competing versions that are available. Buyers must take price, quality and delivery into account when deciding on the purchase of a generic product line, such as unbranded plastic footballs. The Buying Department's responsibilities are limited to deciding which toys to buy. Ordering is handled by the Purchasing Department.</p>
Purchasing	<p>The Purchasing Department is responsible for placing orders with manufacturers, many of whom are based overseas. Major toy manufacturers employ account executives to maintain contact with retailers. The staff in Happy Playz's purchasing Department place orders through the account executives at the manufacturers.</p>

	<p>The Purchasing Department buys branded and generic goods that have been chosen by the Buying Department.</p> <p>The Purchasing Department decides on the size of orders for new products and replenishes inventory as and when required in order to ensure that customer demand is being met.</p>
Logistics	<p>Inventory that has been ordered by the Purchasing Department is delivered to Happy Playz's warehouse. The Logistics Department is responsible for managing inventory after it has been received.</p> <p>Happy Playz frequently receives deliveries of toys that are not to be sold until specific launch dates. Those dates are set by manufacturers and are usually timed to take the greatest possible advantage of the release of a film in the case of licensed goods or an advertising campaign in the case of a new product. Happy Playz takes delivery of such products to assist manufacturers with their own logistical problems and also to be certain that the goods are available in time for the product launch.</p> <p>The warehouse is also used to store supplies of toys that have been purchased in bulk in readiness for the 4th quarter selling period. Having inventory to hand ensures that popular toys are available for sale at that busy time.</p> <p>The Logistics Department organises deliveries of inventory to shops across Westaria. Happy Playz pays third-party haulage companies to handle the collection and transportation of goods.</p> <p>The Logistics Department also manages the packing and despatch of goods that have been sold online.</p>
Marketing	<p>The Marketing Department sets sales and performance targets for each shop. It is the shop manager's responsibility to achieve those targets.</p> <p>The Marketing Department uses data provided by the Finance Department to provide each manager with a daily report on sales revenue and monthly reports on revenue and operating profit.</p> <p>Further oversight and support are provided by the regional sales managers. There are five regional sales managers, each of whom is responsible for overseeing sales by each of the shops that are located within their allotted geographical region. Each region has between 22 and 26 shops. The regional sales managers have access to sales data for all shops and are in frequent contact with individual shop managers by phone and email. They also make regular visits to shops in order to review the presentation and merchandising of toys.</p> <p>The Marketing Department is also responsible for managing advertising activities through both the media and the company's website. Advertising usually focusses on the Happy Playz name, but the company also advertises a selection of toys in conjunction with that name. Toy manufacturers are usually keen to have their products featured prominently in any promotional material.</p>
Human Resources	<p>The Human Resources Department is responsible for the management of all aspects of human resource management, including recruitment, training and staff retention. Human Resources is based at Head Office, but the Department also supports branch managers.</p>

	<p>Applicants for jobs in Happy Playz shops submit their applications to Human Resources. Those who meet Happy Playz’s standards are interviewed by means of a video call to a recruitment specialist in Human Resources.</p> <p>Staff who work in shops and in the Logistics Department are paid an hourly rate. Each staff grade has a wage scale. Newly-appointed staff are placed at a point on the scale according to their age and experience. Staff progress up the scale with each year of service until they reach the maximum for their grade.</p> <p>Human resources is also responsible for administrative matters relating to pay and conditions and payroll.</p>
Property	<p>The Property Department is responsible for property management of Happy Playz’s shops, its warehouse and its Head Office. The Property Department’s responsibilities include facilities management, such as cleaning and maintenance, and legal issues associated with property leases.</p> <p>Happy Playz’s shops, warehouse and Head Office building are leased. The Property Department is responsible for negotiating leases with landlords and also ensuring that Happy Playz is complying with the requirements of its leases with regards to maintenance and repairs.</p> <p>Happy Playz’s leases had an original term of 10 years. They have an average term remaining of 5 years.</p>
Information Technology	<p>The Information Technology Department is responsible for maintaining and updating Happy Playz’s information technology (IT) systems. Information Technology works closely with the Marketing Department in order to update the company’s website, particularly web pages relating to online sales.</p>
Finance	<p>The Finance Department is responsible for all aspects of management accounting, financial reporting and treasury management.</p>

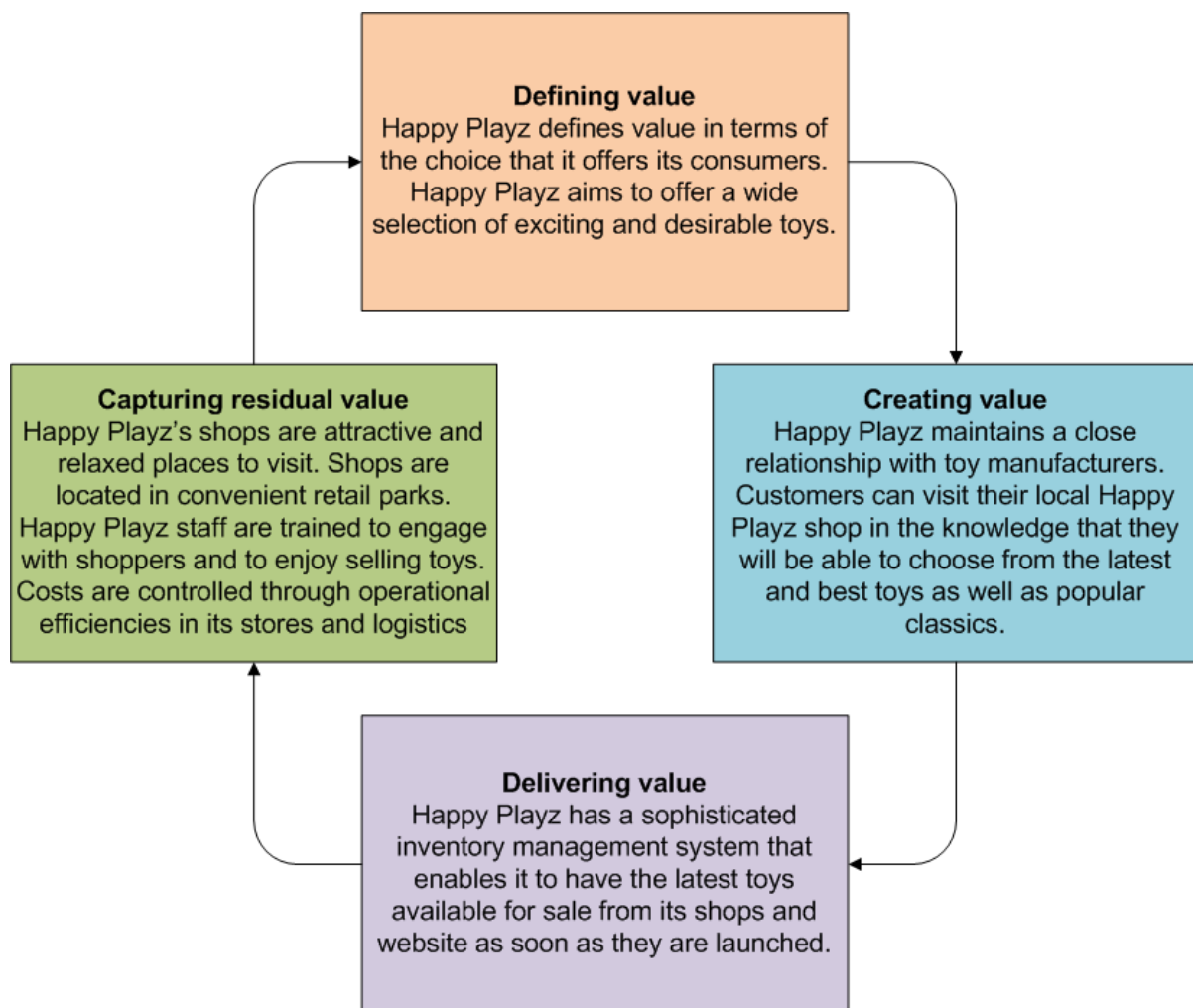
Happy Playz’s management structure



Happy Playz’s Board also includes the following non-executive directors:

- Michael Anderson – Non-Executive Chair
- Vasanthi Kadiravan
- Alexander Lobodanov
- Evelyne Bourgerly
- Sampson Asare

Happy Playz’s business model



Happy Playz’s business model depends heavily on the ability of its buyers to identify popular toys at an early stage of their development. Not all the new toys that are launched each year are commercially successful. Happy Playz’s buyers must choose toys carefully, otherwise the company will be left with inventories of slow-moving products that will eventually be sold at a loss.

Unfortunately, Happy Playz’s buyers must also be careful not to be overcautious because some new toys prove to be hugely successful, often unexpectedly. Once or twice a year, a newly-launched toy becomes so popular that retailers struggle to buy sufficient inventory to keep up with demand. Manufacturers may have long lead times for products that have to be shipped from overseas. Failing to have such toys on sale creates a huge opportunity cost for toy retailers, especially if they are popular during the 4th quarter holiday period. It also leads

to reputational damage for specialist toy retailers because customers generally expect to find the latest toys in their shops.

Happy Playz buys toys in sufficient quantity to obtain large discounts from manufacturers. Unfortunately, non-specialists such as supermarkets can also obtain low prices because they buy a narrow range of toys in very large quantities. Non-specialists can only afford a limited shelf space for toys alongside their other products, and so they focus on the items that are most likely to sell quickly. Happy Playz aims to match competitors' prices rather than undercutting them. It competes on the basis of choice. The need to match prices means that Happy Playz relies heavily on its Purchasing Department to negotiate the keenest possible prices.

The Logistics Department is crucial to managing inventory and maintaining cash flow. Happy Playz frequently has to take delivery of toys several weeks before it intends to put them on sale. It is important that inventory is subsequently delivered to shops ready for their launch dates. Efficient inventory management may also require toys to be returned to Happy Playz's warehouse in order to create shelf space for the latest products in its shops.

The Logistics Department also analyses inventory turnover. Specific toys can be popular in one part of the country and not in others. Logistics can often improve inventory turnover by relocating such toys to the shops that have the greater demand. Toys that are unlikely to sell quickly are usually returned to Happy Playz's warehouse and sold online at a substantial discount.



The layout of Happy Playz's shops is designed to make shopping there pleasant and convenient. Toys are grouped according to category so that customers who are interested in, for example, model vehicles, can find the entire range quickly and easily.

Manufacturers supply toys in packaging that can be stacked or hung from a retail display so that they can be browsed and handled safely before purchase. Happy Playz devotes as much floor space as possible to shelves and racks of toys. Their bright colours and packaging create an attractive display

that excites children and their parents when they visit the shop. The shops are all large warehouse-type retail spaces. Happy Playz has equipped each with shelving systems that are easy to install, remove and reorganise in order to make the best possible use of selling space.

Happy Playz's shops are located in retail parks. Customers find these locations convenient when they are shopping with children because they are safe and accessible. These are readily accessible by car, which is a major benefit if a customer is considering buying a bulky item that would be difficult to carry on public transport. Retail parks may also be more accessible by public transport than city centre shopping districts. Bus stops and train stations within retail parks are generally within easy walking distance of the shops.

Happy Playz's staff recruitment and training place considerable emphasis on enthusiasm and personality. Interviewees are asked to describe their favourite childhood toy and explain why they loved it.

Extracts from Happy Playz's annual report

Happy Playz Group

Consolidated statement of profit or loss

For the year ended 31 December

	2021	2020
	W\$ million	W\$ million
Revenue	906.4	850.7
Cost of revenues	(635.1)	(603.3)
Gross profit	271.3	247.4
Administrative expenses	(8.6)	(8.4)
Selling and advertising	(139.7)	(136.9)
Operating profit	123.0	102.1
Finance costs	(21.5)	(20.2)
Profit before tax	101.5	81.9
Tax	(24.4)	(17.0)
Profit for year	77.1	64.9

Happy Playz Group

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Share capital and premium	Retained earnings	Total
	W\$ million	W\$ million	W\$ million
Balance at 31 December 2020	100.0	171.9	271.9
Profit for the year		77.1	77.1
Dividends		(74.2)	(74.2)
Balance at 31 December 2021	100.0	174.8	274.8

Happy Playz Group
Consolidated statement of financial position
As at 31 December

	2021	2020
	W\$ million	W\$ million
Non-current assets		
Intangible assets	100.0	100.0
Property, plant and equipment	443.3	425.6
	<u>543.3</u>	<u>525.6</u>
Current assets		
Inventory	56.6	58.3
Trade receivables	20.1	17.6
Bank	27.8	24.2
	<u>104.5</u>	<u>100.1</u>
Total assets	<u><u>647.8</u></u>	<u><u>625.7</u></u>
Equity		
Share capital and share premium	100.0	100.0
Retained earnings	174.8	171.9
	<u>274.8</u>	<u>271.9</u>
Non-current liabilities		
Lease liabilities	236.3	224.5
Current liabilities		
Trade payables	66.0	69.6
Lease liabilities	49.8	46.8
Tax	20.9	12.9
	<u>136.7</u>	<u>129.3</u>
Total equity and liabilities	<u><u>647.8</u></u>	<u><u>625.7</u></u>

Breakdown of revenues and operating profit

	Year ended 31 December 2021		Year ended 31 December 2020	
	W\$ million		W\$ million	
Revenue from				
• traditional toys	781.3	86%	734.4	86%
• video games	93.8	10%	86.3	10%
• bicycles	31.3	4%	30.0	4%
Total	906.4	100%	850.7	100%
Operating profit from				
• traditional toys	96.6	79%	80.1	79%
• video games	17.7	14%	13.6	13%
• bicycles	8.7	7%	8.4	8%
Total	123.0	100%	102.1	100%

Extract from Gleetill's annual report

Gleetill and Happy Playz are the only major toy retail chains in Westaria. Gleetill has 150 shops, all of which are located in retail parks. Gleetill's shops are generally larger than Happy Playz's shops, and more space is set aside for displays of new toys and large items, such as outdoor toys including swings and playhouses.

Gleetill is based in Westaria and is quoted on the Westarian stock exchange.

Gleetill Group

Consolidated statement of profit or loss

For the year ended 31 December

	2021	2020
	W\$ million	W\$ million
Revenue	1,359.6	1,361.1
Cost of revenues	(984.4)	(935.1)
Gross profit	375.2	426.0
Administrative expenses	(10.3)	(11.8)
Selling and advertising	(153.7)	(191.7)
Operating profit	211.2	222.5
Finance costs	(30.1)	(29.1)
Profit before tax	181.1	193.4
Tax	(41.7)	(44.5)
Profit for year	139.4	148.9

Gleetill Group

Consolidated statement of changes in equity for the year ended 31 December

2021

	Share capital and premium	Retained earnings	Total
	N\$ million	N\$ million	N\$ million
Balance at 31 December 2020	250.0	162.6	412.6
Profit for the year		139.4	139.4
Dividends		(48.8)	(48.8)
Balance at 31 December 2021	250.0	253.2	503.2

Gleetill Group
Consolidated statement of financial position
As at 31 December

	2021	2020
	W\$ million	W\$ million
Non-current assets		
Intangible assets	140.0	140.0
Property, plant and equipment	709.3	638.4
	<u>849.3</u>	<u>778.4</u>
Current assets		
Inventory	71.1	65.0
Trade receivables	42.8	37.6
Bank	32.1	29.7
	<u>146.0</u>	<u>132.3</u>
Total assets	<u><u>995.3</u></u>	<u><u>910.7</u></u>
Equity		
Share capital and share premium	250.0	250.0
Retained earnings	253.2	162.6
	<u>503.2</u>	<u>412.6</u>
Non-current liabilities		
Lease liabilities	281.2	289.6
Current liabilities		
Trade payables	123.1	122.3
Lease liabilities	49.6	47.2
	<u>38.2</u>	<u>39.0</u>
	<u>210.9</u>	<u>208.5</u>
Total equity and liabilities	<u><u>995.3</u></u>	<u><u>910.7</u></u>

Westaria Business Daily

Rise and fall of retail parks



This has been a confusing time to study the reported profits of retail park operators. Some have been thriving, while others appear to be struggling.

Virtually all operators use the same basic business model. Retail parks are generally located beside major roads and have substantial space set aside for parking. They also offer facilities for buses and sometimes trains. Customers appreciate being able to visit their nearest retail parks without having to

travel into a town or city centre. Retail parks always have a number of retailers to choose from, and so customers can browse different shops.

Retail parks generally have several large retail units or different sizes. The units are leased to a range of different retailers, usually on long-term lease contracts. The mix of different retailers attracts customers, who often enjoy being able to stroll between different shops.

In addition to lease payments, retailers must invest in fitting out their units in their preferred styles. Retailers must pay for the signs that are fitted across the fronts of their units. They must also buy and install shelves, point-of-sale equipment (tills) and interior signage. The units will also be decorated, usually in standard “house styles”, so that customers feel at home in different branches of a particular chain of shops.

The success or failure of specific retail parks is largely affected by the mix of retailers on site. Changing retail habits have affected different segments in different ways.

- Shops selling home electrical items, such as fridges and vacuum cleaners, have become much less popular because customers prefer to buy such items online. Shop closures can leave retail parks with empty units, which do nothing to attract customers to the retailers who continue in business. If empty units are not occupied quickly, then retail parks can suffer further closures when retailers choose not to renew leases because of poor footfall in a particular location.
- Fashion retailers attract customers, who enjoy looking at clothes and trying them on before buying. Restaurants also attract customers, possibly turning shopping into a leisure activity.

Retail parks that pay close attention to trends in shopping and who adapt by marketing potentially vacant units to retailers in traditional town and city centre retail environments tend to prosper. Consumers prefer to shop in retail parks that are fully occupied by their favourite retailers.

The mystery of merchandising



Most shoppers take the layout of their favourite shops for granted. Very few realise the importance that retailers attach to merchandising when they are laying out the design of their shops and deciding which particular shelf to place your favourite brand of toothpaste on.

Merchandising is the use of presentation in retail outlets (not just supermarkets) to maximise sales. For example, supermarkets frequently place their fresh fruit and vegetables at the entrances of their shops so that customers have to walk through them. The bright colours and pleasant smells can help to put customers in a good mood, even if they rarely buy from that department.

Retailers know that buying decisions can be influenced by merchandising. Shops often place items on special offer close to the entrance. This explains why there could be stacks of tinned goods or a small selection of bakery products on the way into the fruit and vegetable section. Customers might be tempted to make impulse buys of those products while they have empty shopping trolleys.

The placement of goods on shelves is another key element of merchandising. Goods that are shelved at eye level tend to sell better than those that require customers to search through higher and lower shelves. Manufacturers often seek to negotiate product placement on shelves and might even offer discounts to retailers who place their products on the preferred middle shelves. You might find it convenient to be able to see your favourite toothpaste at eye level, but your choice of toothpaste could have been influenced by the fact that the supermarket always places it where you can see it easily.

Consumer advice column



This week's column deals with the important topic of toy safety. This is a complicated matter because there is a global market for toys, and the laws vary from country to country.

In Westaria, any toy that meets the definition of a toy must comply with Westarian safety standards. These cover a number of areas:

Mechanical – this covers a range of matters, including checking that there are no sharp edges, holes that could trap a child's fingers and so on.

Flammability – the toys should not catch fire through overheating in operation or because of brief contact with a heat source.

Electrical – there should be no electrical hazards in mains or battery-powered toys.

Labelling – products should be clearly labelled with any safety information or warnings, such as recommended minimum ages for children or the need for a toy to be used under adult supervision.

Toxicity – toys should be safe to handle, with no risk of skin irritation or poisoning from ingesting coatings or small parts. For example, any button batteries should be secured beneath a cover that is securely screwed in place.

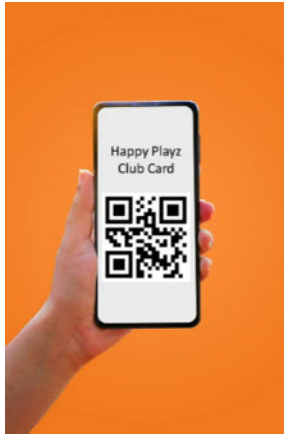
Toys cannot be sold in Westaria unless they meet the safety standards. They must also be free of any obvious threats to safety that are not covered by the standards. The manufacturer is responsible for compliance if the toys were manufactured here. The importer is responsible if the toys were manufactured elsewhere.

Retailers are not specifically required to conduct their own safety tests on toys provided they have received all the necessary assurances that they meet Westarian standards, but many retailers voluntarily conduct tests.

These standards do seem to be effective. Statistics show that most toy-related injuries are caused by people tripping or slipping on toys.

Happy Playz launches Club Card

Happy Playz, the toy retailer whose shops have a significant presence in retail parks across the country, has launched a loyalty card. This is downloaded as a mobile phone app that can be scanned at the till when making a purchase from one of Happy Playz's 120 shops. There is also a customer number that can be input when making online purchases.



Customers who sign up for membership of the “Happy Playz Club” will collect one Club Point for every W\$ spent in store or online. Those points will accrue with every purchase and will be redeemed by customers in the form of discounts. The more you spend the more you save.

Happy Playz Club members will also receive what the company calls “targeted promotions”. Put simply, the company will track individual members’ purchases from Happy Playz and their browsing histories on the Happy Playz website and will recommend related products for future purchases. A customer who buys a fashion doll, for example, might receive an email about the launch of a new range of outfits for that doll.

A spokesperson for Happy Playz commented that the new card was proving popular, with more than 800,000 downloads of the app in the first week after its launch.

Happy Comic

Readers' questions

Question: Why do some toys have minimum ages?

Angela, age 9

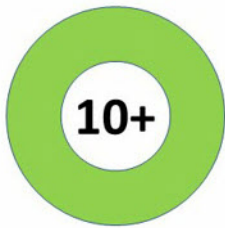


Answer: Toys would not be fun to play with if they were dangerous. Toy manufacturers are required to recommend a minimum age for their toys if they could put very small children at risk. For example, toys that have small parts that could be swallowed by babies may have a minimum recommended age. Those toys can be played with safely by older children who can understand that they should not

put objects in their mouths.

Question: I really want the new Speedboost model car for my birthday, but I am only 8 and the toy's recommended age is 10+. Does that mean that I would not be allowed to have this toy?

Chakra, age 8



Answer: Happy birthday! Toy manufacturers often recommend suitable age ranges for their toys. This is intended to ensure that the recipient of the toy will have fun playing with it. There is no point in buying young children toys and games that would be too complicated for them. Similarly, older children are unlikely to enjoy playing with toys that would be best suited to toddlers.

There is nothing to prevent you from buying a toy that is recommended for an older child if you are sure that it is what you want.

Question: I am working on a school project called "my favourite toy". I have been writing about my Moortoy Flyer remote-control car. I am confused because the toy is stamped "Made in Eastland", but I have just looked at Moortoy's website and all the company's factories are in Westaria.

Markus, age 11



Answer: Manufacturers do not always make all their products. Indeed, some "virtual" manufacturers outsource all their manufacturing to third parties. This can be an advantage if another business can make a product more cheaply and/or at a better quality.

In the case of your car, it looks as if Moortoy has paid a company in Eastland to build its remote-control cars. Moortoy will have designed the cars and specified the materials. The cars are sold under the Moortoy brand, with all the logos and brand names on the product itself and its packaging.

Question: Why do shops often pile things in baskets just inside the front door?

Polly, age 10



Answer: These baskets are called “dump baskets”. Shop managers often use them to display new products or products that are on special offer. They can be located anywhere in a large shop, but they are often found near the entrance because it makes them highly visible, so customers might be tempted to buy them.

Dump baskets get their name from the fact that they are easy to fill and replenish. It is quicker and easier to empty (or dump) a box of items into a basket than it is to place them individually on shelves.