

Operational Case Study Examination

November 2024 - February 2025

Pre-seen material

BackOffice



Context Statement

We are aware that there has been, and remains, a significant amount of change globally. To assist with clarity and fairness, we do not expect students to factor these changes in when responding to, or preparing for, case studies. This pre-seen, and its associated exams (while aiming to reflect real life), are set in a context where current and ongoing global issues have not had an impact.

Remember, marks in the exam will be awarded for valid arguments that are relevant to the question asked. Answers that make relevant references to current affairs will, of course, be marked on their merits.

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Your role

You are a Finance Officer working within the Finance Department of BackOffice. You are principally involved in the preparation of management accounting information and providing information to managers to assist with planning and decision making. At times, you are also expected to assist with the preparation of the financial statements and answer queries regarding financial reporting and other financial matters.

Company background

BackOffice is a company that designs, manufactures and markets backpacks that serve as an alternative to the traditional briefcase. BackOffice backpacks are built to a high specification and aimed at the growing market of hybrid workers. Hybrid workers are people who work from both home and office; workers who need a portable container that can hold all the equipment they require to do their job. BackOffice is a high-value brand, and this is reflected in the relatively high-selling prices compared to other backpack brands. Currently, BackOffice sells its products through the BackOffice website and selected retail stores. The company is based in Hland, a country in Western Europe which has the H\$ as its currency.

BackOffice was founded in 2015 by Arlo James. Arlo, a product designer by trade, was previously employed as chief designer for a leading hiking backpack brand. While working for this company, he became expert in ergonomic backpack design, technical textiles and the backpack manufacturing process. This expertise and other skills were seamlessly transferred to his BackOffice start-up company when Arlo realised that there was a gap in the business market for a backpack that incorporated style, good interior functionality and comfort while being worn.

Hland is a country with a hugely influential fashion industry and a long history of textile manufacturing. Half a century earlier, Hland had a thriving textile industry that included the production of yarn, the knitting and weaving of fabric, dyeing factories and many thousands of industrial machines for making-up the fabric produced into garments, home furnishings and outdoor products. This industry has been in decline for years as competition from other countries undercut prices. When Arlo founded BackOffice, he decided that his company would have an in-house manufacturing facility in Hland. This was an unusual and risky decision as almost all backpack companies either outsource the manufacturing to specialist companies in Asia or base their own production facilities there, as labour costs are much lower than in Europe or America. The decision to manufacture the BackOffice backpack in Hland has proved to be a significant part of the success of the BackOffice brand as the backpacks, designed to be beautiful as well as functional, are strongly linked to the centre of the world's fashion industry.

The BackOffice brand launch was managed by an external marketing company and was phenomenally successful. The marketing company sent samples of all BackOffice's products to major fashion houses and magazines as well as business magazines and reviewers. A leading global fashion magazine featured all the BackOffice products in an article showing a designer's office wear autumn collection. Demand for BackOffice products was stimulated by this article, but the brand really took off when an A-list actor, also famous as a goodwill ambassador for humanitarian aid agencies, was photographed using a BackOffice backpack on numerous occasions. In an interview focused on how the actor balanced her life as parent, actor and ambassador, she stated that she relied on her supportive spouse, her RADA training and her BackOffice backpack.

BackOffice has experienced sales growth every year since launch. The concept of the hybrid worker increased in popularity throughout the late 20th and early 21st century, largely due to advances in technology. The growth rate of this market has continued to accelerate. Working from home for several days each month, while hot desking at the office for the remainder of the time, has become the norm for most office-based companies. As a result of this, hybrid workers value a

backpack capable of organising laptops, tablets, work files, chargers and stationery, while being easy to load and transport. The design of the BackOffice backpacks means that they are more comfortable to carry for prolonged periods of time than any other business backpack on the market. This is perfect for commuters with journeys using public transport or those with a long distance to walk.

Since the founding of the company, Arlo James has recruited a highly-competent team of senior managers. The Senior Management Team (SMT) meet frequently and work collaboratively and effectively. The current SMT format has existed since 2017. In the year to 30 June 2024, the company's revenue was H\$16.1 million, gross profit was H\$7.9 million and profit before tax was H\$2.1 million. During this year, the company sold just over 100,000 backpacks.

BackOffice's ethos

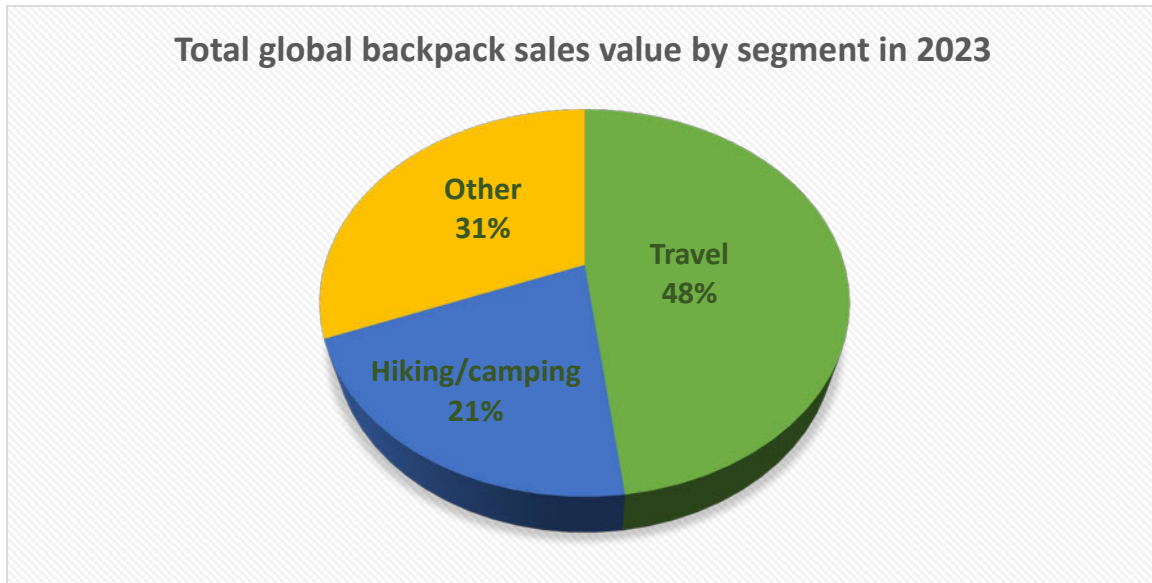
- BackOffice's mission statement is "To produce the most beautiful, the most useful, the most durable and the most comfortable office backpack". This mission guides the design and production of all BackOffice products.
- Arlo James and the other members of the SMT at BackOffice are committed to sustainability. The durability of the designs means that the backpacks can last for many years. The materials used in production are always ethically sourced, and recycled materials are used whenever this will not compromise the durability or functionality of the backpacks. The company has an aim to be carbon neutral by 2030 and is continually striving to improve its supply chain, manufacturing processes and outward logistics to get closer to this. The power source at the BackOffice offices and production facility is largely supplied by solar panels and all company vehicles are electric.

The market for backpacks

The global market for backpacks

The global market for all backpacks in 2023 was worth H\$17.2 billion and is expected to grow to H\$31.38 billion by 2030, exhibiting a compound annual growth rate (CAGR) of around 9%. Currently, the largest market is North America (H\$5.71 billion), followed by Europe and then Asia Pacific.

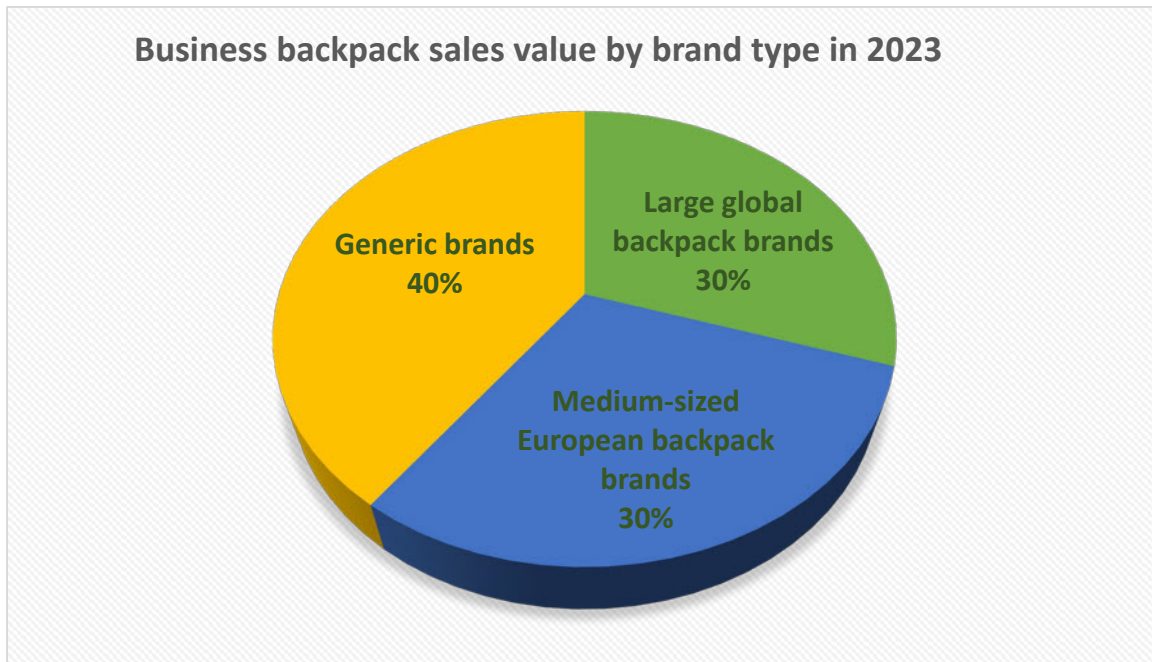
The global market for backpacks can be broken into three main segments:



'Other' includes business backpacks, which is where BackOffice is positioned.

The European market for business backpacks

The European market for business backpacks (which is principally where BackOffice sells) is worth H\$650 million in sales revenue. This market can be broken down as follows:



The different brand types can be characterised as follows:

Large global backpack brands	There are three large backpack brand companies that operate globally. These three companies operate in all segments of the market (travel, hiking/camping and other), and account for around 30% of total sales value in the European market for business backpacks. Two of these brands are considered premium and the other mid-range.
Medium-sized European backpack brands	There are 10 medium-sized backpack brand companies that are based in Europe which make and sell business backpacks. For most of the companies, sales are focussed in Europe. BackOffice is classed as one of these companies at the premium end of the market.
Generic brands	There are over 20 generic brands that sell products ranging from clothing and tents to food (in the case of supermarkets). The backpacks sold by generic brands tends to be at the economy end of the market, with backpacks usually mass produced in Asia.

Extracts from the BackOffice website



[Home](#)

[Products](#)

[Our Story](#)

[Our Ethos](#)



BackOffice

Elevate your style and productivity

Welcome to our exclusive collection of premium office backpacks and everyday carrier (EDC) backpacks. Crafted with the utmost attention to detail, our backpacks combine sleek aesthetics with unrivalled functionality and comfort. Each backpack is engineered to meet the demands of the modern business executive, ensuring that you have everything you need within easy reach.

Explore our collections today and discover the epitome of functionality and style in office and EDC backpacks.

Design and build quality

Design is crucial to the BackOffice brand. All our office and EDC backpacks are initially created using computer aided design technology (CAD). The designs then evolve through a number of prototype iterations before undergoing rigorous laboratory and human testing. The development of a new backpack takes approximately 10 months before it is passed for production.

All our Office and EDC backpacks incorporate ergonomic adjustable backpack straps and a patented back panel airflow system for maximum comfort. All backpack exteriors are manufactured from the finest ballistic nylon, ensuring strength, a smooth finish and water resistance, while adding minimal weight. In addition, we only use TJJ zippers on all our external openings and pockets.

All our products are manufactured in Hland, the heart of the fashion world. Our workers have inherited their meticulous craftsmanship from generations of textile and leather workers. Our suppliers are all experts, and local, having learned over decades what their customers need.

Our products

Office backpacks

Our office backpacks are meticulously engineered and designed for the dedicated professional who refuses to compromise on their workspace, even when on the move. Our backpacks are your portable office, providing the ultimate solution for those who require their place of business to be with them at all times.

These backpacks allow you to carry your laptop, tablet and all your essential work tools securely and conveniently. Our intelligently-designed compartments and pockets offer optimal organisation, allowing you to effortlessly access your devices and accessories whenever you need them.

In addition to the beautiful design, our office backpacks boast high technical functionality that sets them apart from other brands. From advanced charging capabilities to integrated power banks, you can conveniently charge your devices on the go and stay connected. Innovative features like radio frequency identification (RFID)-blocking pockets and anti-theft systems mean your valuable data and belongings are always protected (click [here](#) to view our office backpack).

EDC backpacks

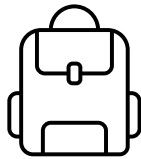
Our EDC backpacks are designed to be used in a variety of contexts that seamlessly switch from work to leisure. Every EDC backpack exudes elegance and makes a bold fashion statement, while providing practical and comfortable carrying performance. You will find ample space to stow and organise your everyday essentials from your laptop to a change of clothing for a mini break. Whether you are navigating the urban jungle or embarking on a recreational outdoor adventure, our EDCs effortlessly blend into almost any setting (click [here](#) to view our EDC backpacks).

Office backpack ranges

There are three designs in our Office range.

Uffico

Our premium Office backpack key specification



- 2 integrated USB ports - easy connection
- RFID pocket
- Easy loop cable management system
- 2 internal bottle holders with PVC lining
- Laptop screen size: 17.3"
- Dimensions: 46 x 32 x 20 cm

Capsula

Our mid-sized Office backpack key specification



- 2 integrated USB ports - easy connection
- RFID pocket
- Cable management system
- 1 internal and 1 stretch mesh bottle holder
- Laptop screen size: 15.6"
- Dimensions: 43 x 30 x 18 cm

Scrivania

Our compact Office backpack key specification

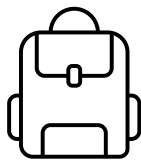


- Integrated USB port - easy connection
- RFID pocket
- Cable management system
- 2 stretch mesh bottle holders
- Laptop screen size: 14.1"
- Dimensions: 41 x 29 x 14 cm

Everyday carrier (EDC) backpacks

Our EDC backpacks are currently available in a single design in two sizes. Both sizes have clam shell opening so that all contents are as visible and accessible as possible. Both sizes are also expandable so you can enjoy using these beautiful backpacks for a myriad of events and occasions.

Our EDC backpack key specification



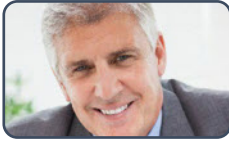
- Powerbank organisation
- 1 internal and 1 stretch bottle holder
- Laptop screen size: 17.3" (large) and 15.6" (small)
- Dimensions large: 46 x 35 x 22 cm
-expanded: 46 x 35 x 26 cm
- Dimensions small: 43 x 30 x 19 cm
-expanded: 43 x 30 x 22 cm
- Internal organisation pockets
- Luggage straps
- Key fobs
- Internal wallet with RFID protection

All BackOffice backpacks are available in a range of exterior shades with contrasting internal colours.

Personalised backpacks

All BackOffice backpacks can be personalised with up to three gold initials free of charge.

Senior Management Team (SMT)



Managing Director: Arlo James Arlo worked in various businesses as a product design engineer. He worked for 7 years as Chief Designer for a hiking backpack company before founding BackOffice.



Finance Director: Hilary Sec Admitted as an FCMA 5 years ago, Hilary has a wealth of experience in a diverse range of organisations. Hilary works closely with Arlo and is instrumental in helping to drive the business forward.



Sales & Marketing Director: Gem Rossi Gem joined Arlo as soon as BackOffice was formed. It was her vision of the BackOffice backpacks as a fashion as well as practical office tool that triggered the hire of the original marketing company.



Production Director: Jack Loren Promoted to Director in 2017, Jack has managed the growth of the manufacturing operations successfully. Jack currently works most closely with Ben Conti.



Research & Development Director: Ben Conti Ben was an ex-colleague of Arlo's from the hiking backpack company where they both worked. Ben's expertise with IT systems and digital design is a critical success factor for the business.



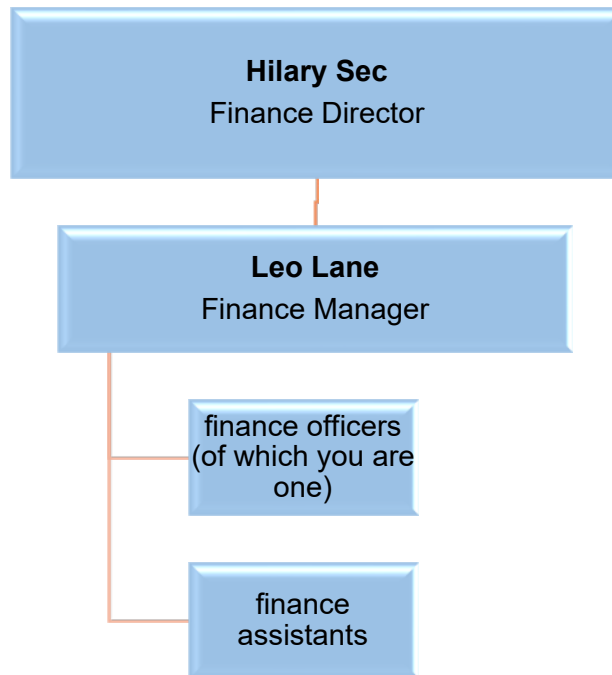
Human Resource Director: Zed Abuto Zed was recruited in late 2017, when it was obvious that growth in both volume and diversity of personnel roles needed careful strategic management.



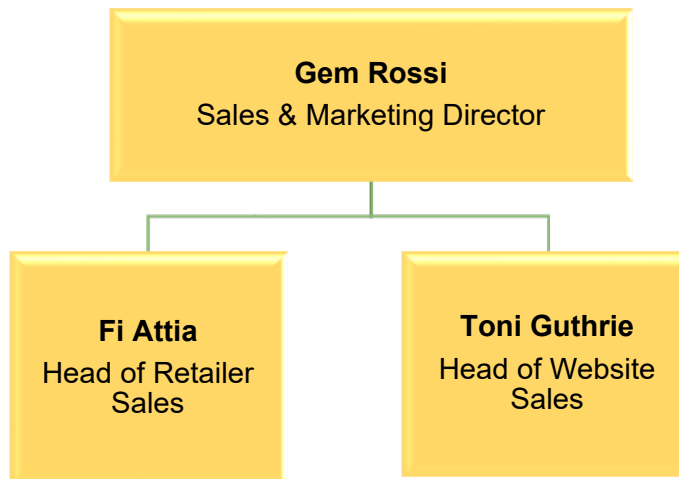
Distribution Director: Char Grecco Char spent 15 years working for a global logistics company before joining BackOffice at director level. They are expert in all manner of systems needed to ensure the coordination of efforts to deliver customer expectations.

Key management teams

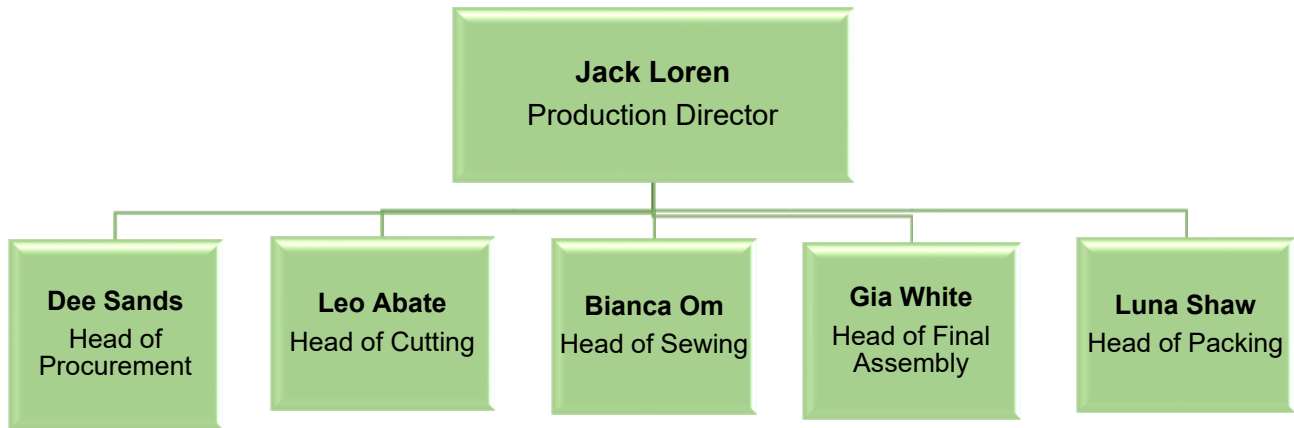
Finance



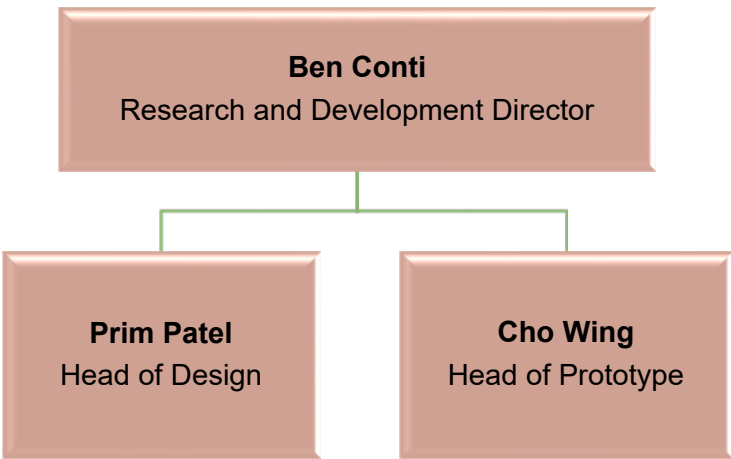
Sales & Marketing



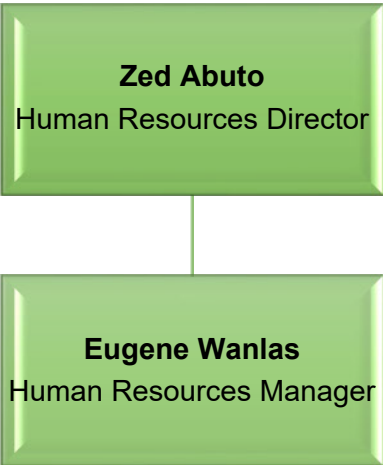
Production



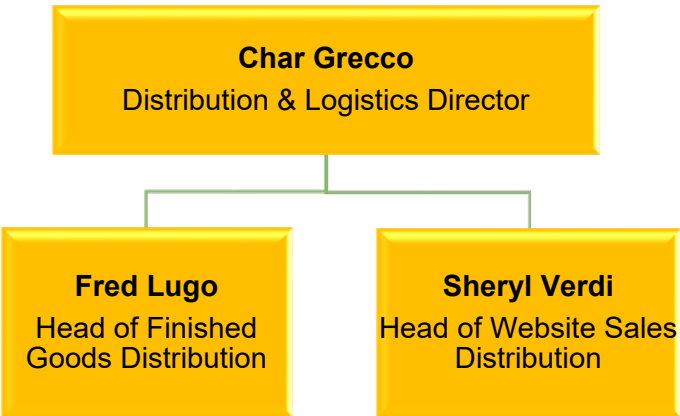
Research & Development



Human Resources



Distribution



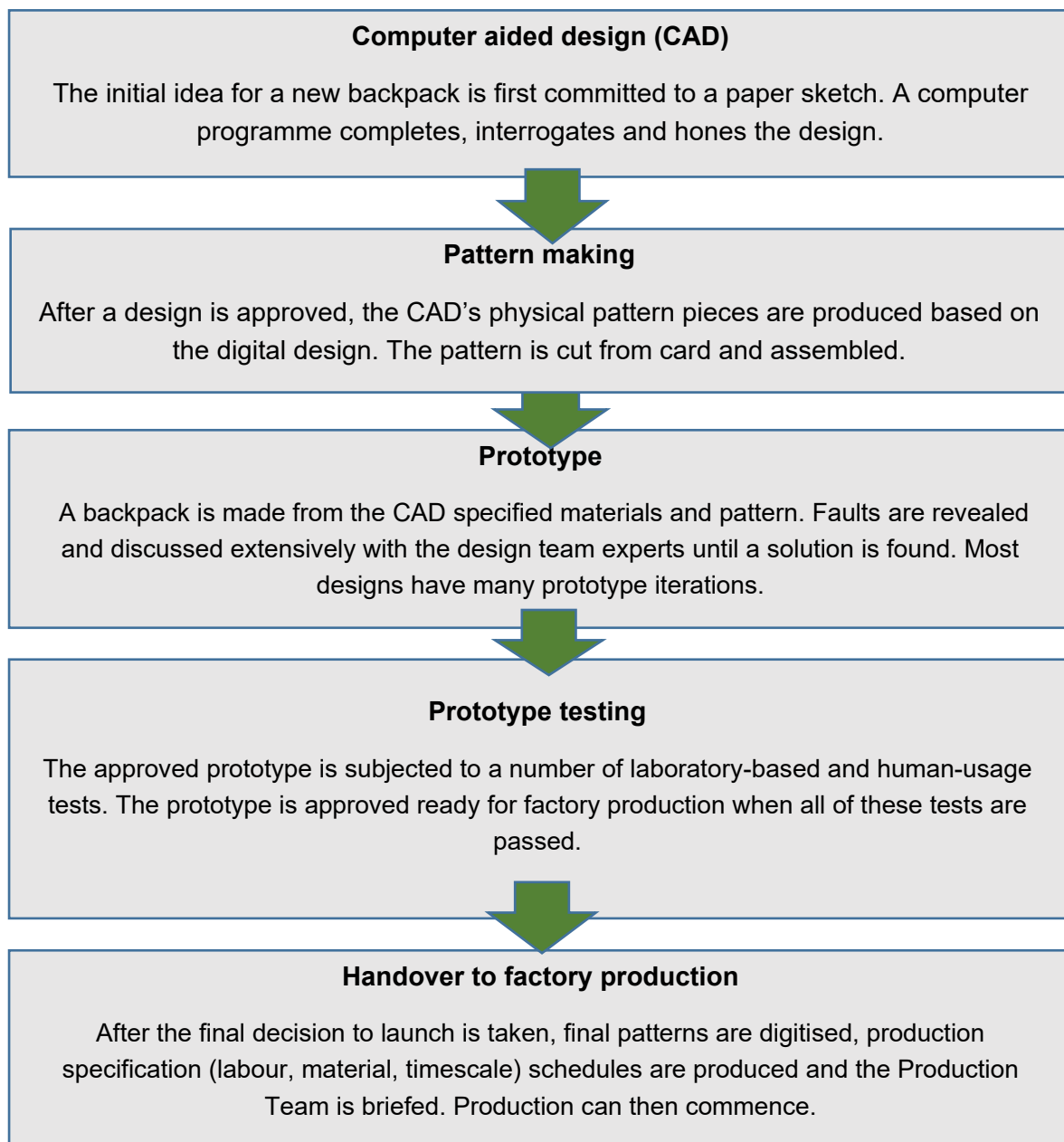
Extract from the employee induction manual: Overview of the design and manufacturing process

Introduction

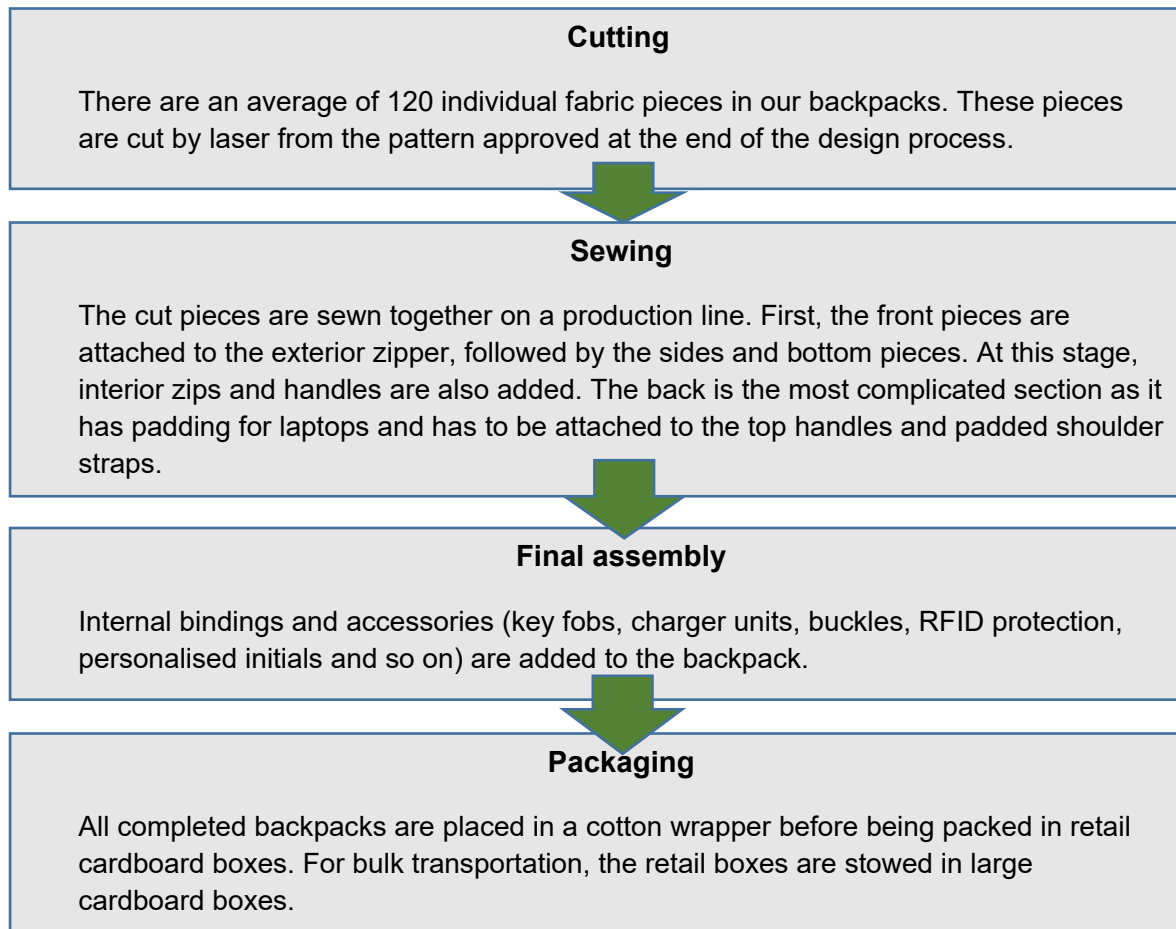
We design and manufacture all BackOffice backpacks from our premises here in Hland. Regardless of your role in our company, it is important that you appreciate the process from idea to finished product.

The design and development process

This process can take anywhere between 6 months to a year and is as follows:



The manufacturing process



Note:

The production schedule determines in advance which type of backpack is being manufactured. Each type of backpack is manufactured in batches. Each batch requires careful coordination of materials, patterns and machine calibration.

Other information about company operations

Production Facility

All BackOffice products are manufactured in Hland from its Production Facility. This is in contrast to almost every other backpack brand which manufactures in Asia, where the cost of production is relatively low compared to Hland. The SMT has stated that both control of the process and quality would suffer if production were relocated and that this will not happen. In short, the location of the Production Facility in Hland is integral to the brand. Furthermore, there is capacity at the facility for further expansion which the SMT intend to utilise soon.

Purchasing and suppliers

The raw material inputs to the production process are:

Ballistic nylon	This material was originally developed for military use. As the name suggests, this nylon is extremely tough (it was designed to protect personnel from flying debris caused by artillery shells). BackOffice use the lightest and highest grade 1680 denier version of this material, which has a water resistant, smooth and fine finish with an exceptionally high tear strength value of 460 Newtons (most backpacks are made from polyester with a tear strength lower than 130 Newtons). The ballistic nylon used by BackOffice is sourced from a single supplier that offers 30-day payment terms and BackOffice usually holds 2 months' inventory.
Cotton fleece	Used to protect items like tablets, laptops and sunglasses from scratches, this fabric is available from a number of local suppliers as well as from suppliers further afield.
Zippers	There is one global supplier (TJJ) that specialises in backpack zippers. TJJ manufactures a zipper so superior to others on the market that almost all quality backpack manufacturers use them. TJJ zippers last for decades without breaking. They are self-lubricating and external zippers have a seal to prevent water ingress. BackOffice always designs backpacks with plated TJJ zippers.
Foam padding, thread, buckles and accessories	These items are sourced from a variety of companies selected based on the requirement that their products must meet the exacting quality specification from the BackOffice Design Department.
Packaging	All cotton wrappers and retail boxes are customised to include BackOffice's logo. These products are an important part of the brand identity and care is taken to ensure that the quality is right. The more general packaging and stationery are sourced based on low price.

Note: Credit payment periods from suppliers range from 30 days to 75 days.

Sales markets and sales channels

The target market

At its launch in 2015, Arlo James believed that the market segment that would want to own and use a BackOffice product was the hybrid worker. He believed that the superior functionality, durability and beautiful styling of BackOffice backpacks would command higher-than-average selling prices which narrowed this segment further. In the 9 years since the launch, Arlo has been proved right, as BackOffice has become a powerful brand name, strongly associated with the discerning and fashion-conscious client.

Sales channels

BackOffice currently sells its products via selected retail outlets such as department stores and specialist bag stores as well as through the company's own website. Retailers account for approximately 60% of BackOffice's revenue and the website accounts for approximately 40% of revenue.

The website provides visitors with an extensive amount of information about the company founder and background, materials used, ethos and interactive examination of all backpacks in the five ranges. Details on how to choose the right backpack, the correct backpack size and the choice of colour and personalisation helps visitors to select the perfect BackOffice backpack for their needs.

Currently, 70% of BackOffice's sales are to customers in Hland, either through the website or from retailers. 25% of sales are to other countries in Europe, again, through the website and retailers. The remaining 5% are sales in Asia, which are all through retailers.

Distribution Centre and logistics

The company has a state-of-the-art Distribution Centre close to the Production Facility, from where sales are shipped to both retail and website customers. BackOffice uses a global logistics company to deliver all of its products.

Research and Development

Over the past 2 years, developing new product ranges has been a priority for BackOffice. Unfortunately, the last product launched was a complete failure and was withdrawn from sale almost immediately. The failed product was a backpack designed to organise and carry baby kit so that parents with babies could have all the essentials to hand while out of the home. It was believed that the brand would appeal to wealthier, brand-conscious parents, but it did not manage to compete with the better-known baby brands. Feedback from the market research company that investigated the failure concluded that the product would have diluted the brand and that BackOffice would have avoided most of the development and design costs had market research been conducted earlier in the development process. The Senior Management Team was shocked by this failure and are determined that it will not be repeated.

Products currently in development are:

- A range of backpacks made from recycled water bottles. The bottles will be collected, cleaned and transformed into polyethylene terephthalate (PET), a polyester fabric manufactured by a third party. This material was chosen early on in the development process as market research revealed that it appealed to potential customers as it is “green”, durable and has a luxurious feel.
- Backpacks for people who cycle to work. This product will maintain the wearer’s low centre of gravity while cycling, have additional padding for laptop protection and be waterproof.
- Modis. A range of removable packs (Modis Packs) designed to fit into a modified EDC backpack (Modis EDC). The Modis EDC will be based on the traditional EDC design but without the traditional internal compartments and will be sold separately to the packs. Different Modis Pack designs will be available, each serving a different purpose, meaning that the user can easily adapt a single Modis EDC to suit different occasions.
- A cabin bag made from ballistic nylon designed to meet exacting airline cabin size requirements. This is a departure from the backpack but seen as a complimentary product.

Employees

BackOffice had the following number of employees on 30 June 2024:

	Number
Development and production	172
Distribution	31
Head office	24
Total	227

Standard costing and budgets

The company operates a standard absorption costing system using departmental overhead absorption rates based on direct labour hours. Standard cost cards are updated annually. Budgets are prepared annually on an incremental basis.

Financial statements for the year ended 30 June 2024

BackOffice

Statement of profit or loss for the year ended 30 June 2024

	2024 H\$000	2023 H\$000
Revenue	16,110	14,620
Cost of sales	(8,186)	(7,668)
Gross profit	7,924	6,952
Selling, distribution and marketing costs	(3,741)	(3,369)
Administrative expenses	(1,450)	(1,327)
Operating profit	2,733	2,256
Finance costs	(595)	(536)
Profit before tax	2,138	1,720
Income tax expense	(562)	(442)
Profit for the year	1,576	1,278

BackOffice**Statement of financial position at 30 June 2024**

	2024 H\$000	2024 H\$000	2023 H\$000	2023 H\$000
ASSETS				
Non-current assets				
Property, plant and equipment	11,957		12,560	
Right-of-use assets	1,956		1,450	
		13,913		14,010
Current assets				
Inventory	1,790		1,665	
Trade receivables	1,530		1,410	
Prepayments and other receivables	290		256	
Cash and cash equivalents	314		-	
		3,924		3,331
Total assets		17,837		17,341
EQUITY AND LIABILITIES				
Issued H\$1 equity share capital	1,000		1,000	
Retained earnings	4,861		4,285	
Total equity		5,861		5,285
Non-current liabilities				
Borrowings	8,500		8,500	
Lease liability	1,055		1,004	
		9,555		9,504
Current liabilities				
Overdraft	-		345	
Trade payables	1,312		1,219	
Accruals and other payables	280		307	
Tax liability	562		442	
Lease liability	267		239	
		2,421		2,552
Total equity and liabilities		17,837		17,341

BackOffice**Statement of cash flows for the year ended 30 June 2024**

	2024 H\$000	2024 H\$000
Cash flows from operating activities		
Profit before tax		2,138
Adjustments		
Depreciation for property, plant and equipment	726	
Depreciation on right-of-use asset	423	
Finance costs	595	
		1,744
Movements in working capital		
Increase in inventory	(125)	
Increase in trade and other receivables	(154)	
Increase in trade and other payables	66	
		(213)
Cash generated from operations		3,669
Tax paid		(442)
Interest paid		(595)
Net cash inflow from operating activities		2,632
Cash flows from investing activities		
Purchase of property, plant and equipment	(123)	
Net cash outflow from investing activities		(123)
Cash flows from financing activities		
Repayment of lease principal	(850)	
Dividend paid	(1,000)	
Net cash outflow from financing activities		(1,850)
Net increase in cash and cash equivalents		659
Cash and cash equivalents at the start of the year		(345)
Cash and cash equivalents at the end of the year		314

Budget information for the year ending 30 June 2025

Total budgeted gross profit

	Office backpacks H\$000	EDC backpacks H\$000	Total H\$000
Sales revenue	12,696	5,330	18,026
Cost of sales	(5,873)	(2,994)	(8,867)
Gross profit	6,823	2,336	9,159
Gross profit margin	53.7%	43.8%	50.8%

Office backpacks

Sales revenue

	Uffico	Capsula	Scrivania	Total
Sales volumes:				
Website	3,680	11,240	13,840	28,760
Retailers	5,520	16,860	20,760	43,140
Total	9,200	28,100	34,600	71,900
Average sales prices:	H\$	H\$	H\$	
Website	250	210	180	
Retailers	200	168	144	
Sales revenue:	H\$000	H\$000	H\$000	H\$000
Website	920	2,360	2,491	5,771
Retailers	1,104	2,832	2,989	6,925
Total sales revenue	2,024	5,192	5,480	12,696

Cost of sales

	Uffico	Capsula	Scrivania	Total
Total sales volumes	9,200	28,100	34,600	71,900
Average production cost per unit:	H\$	H\$	H\$	
Raw materials	27.72	25.82	23.22	
Direct labour	48.00	45.80	43.60	
Variable production overhead	3.08	3.00	2.91	
Fixed production overhead	9.26	8.99	8.72	
Total cost per unit	88.06	83.61	78.45	
	H\$000	H\$000	H\$000	H\$000
Total cost of sales	810	2,349	2,714	5,873

EDC backpacks

Sales revenue

	Small	Large	Total
Sales volumes:			
Website	5,880	8,560	14,440
Retailers	8,820	12,840	21,660
Total	14,700	21,400	36,100
Average sales prices:	H\$	H\$	
Website	150.00	180.00	
Retailers	120.00	144.00	
Sales revenue:	H\$000	H\$000	H\$000
Website	882	1,541	2,423
Retailers	1,058	1,849	2,907
Total sales revenue	1,940	3,390	5,330

Cost of sales

	Small	Large	Total
Total sales volumes	14,700	21,400	36,100
Average production cost per unit:	H\$	H\$	
Raw materials	21.85	26.58	
Direct labour	43.60	48.00	
Variable production overhead	2.91	3.09	
Fixed production overhead	8.72	9.27	
Total cost per unit	77.08	86.94	
	H\$000	H\$000	H\$000
Total cost of sales	1,133	1,861	2,994

Example standard cost cards

Office backpack Uffico				
	Quantity / hours	Standard price / rate H\$	Standard cost H\$	Standard cost H\$
Materials:				
Ballistic nylon	1.2 sq. metres	12.00	14.40	
Fleece	0.4 kg	2.30	0.92	
Other			11.20	
Packaging			1.20	
Total				27.72
Direct labour:				
Cutting	0.50 hours	18.00	9.00	
Sewing	1.20 hours	22.00	26.40	
Assembly	0.50 hours	18.00	9.00	
Packaging	0.20 hours	18.00	3.60	
Total				48.00
Variable production overheads:				
Cutting	0.50 hours	2.42	1.21	
Sewing	1.20 hours	0.92	1.10	
Assembly	0.50 hours	0.97	0.49	
Packaging	0.20 hours	1.42	0.28	
Total				3.08
Fixed production overheads:				
Cutting	0.50 hours	7.26	3.63	
Sewing	1.20 hours	2.77	3.32	
Assembly	0.50 hours	2.92	1.46	
Packaging	0.20 hours	4.27	0.85	
Total				9.26
Total production cost				88.06

Notes on standards and budget preparation

1. Standards are reviewed and updated annually.
2. Normal raw material losses are included in the standard cost of each product.
3. All direct labour overtime premium is treated as variable production overhead. Idle time is not budgeted for.
4. Production overheads are allocated and apportioned to production cost centres and absorbed on a direct labour hour basis.

Extracts from Senior Management Team meeting minutes

Date: 2 November 2024

Present: Arlo James, Hilary Sec, Gem Rossi, Jack Loren, Ben Conti, Zed Abuto

Agenda point 2: Products in development

Arlo James opened the discussion by stating that BackOffice currently has four new products nearing the end of development, all of which have incurred considerable investment to date. He is concerned that, following the disaster that was the baby kit backpack, BackOffice cannot afford to launch another unsuccessful product. He is aware that the Research & Development Department feels over stretched and demoralised and that it has been involved in too many new developments during 2024. He is also very concerned that the resources needed to launch four new products in the next year will put a considerable strain on personnel and cashflow.

Ben Conti and Gem Rossi then reviewed the progress of the four products in development:

Polyethylene terephthalate (PET) backpacks/Salvare range

- All development is complete and handover to manufacturing scheduled for January, ready for an April launch. Extensive market research and testing indicate that the product will be very well received.
- PET polyester is much cheaper than ballistic nylon as it is made from used water bottles that would otherwise be destined for landfill. However, the choice of PET polyester is key to the success and integrity of the product range and the decision will not be based on the lowest price. Although a multiple supplier policy would be cheaper, BackOffice is looking for a single supply partner with whom it can build a collaborative relationship. This will ensure an uninterrupted quality supply of PET polyester and create bonds with an expert company that will help develop future products. Various suppliers of PET polyester have been rejected because they do not have good enough "green" credentials or are located too far away. Lower-priced suppliers have been rejected because their polyester has too low a tensile strength, too low a tear strength or does not dye well enough. Two suppliers have been shortlisted and the Senior Management Team is waiting for additional information before making the final decision.
- Dee Sands, Head of Procurement, will personally manage the relationship with the new PET polyester supplier for the first few months. This will ensure that any early problems are resolved without disruption to BackOffice operations or brand.

Modis

- Development is expected to be complete by the end of January deadline as the prototype is about to be approved. The launch date is not yet set.
- Modis EDCs are the same as the traditional EDC except that they do not have a finished fixed inner compartment. In effect, they are outer shells with fixing devices to secure the internal Modis Packs.
- Three versions of the internal Modis Packs (Office, Travel and Picnic) have been designed to fit both small and large Modis EDCs. It is expected that customers will purchase more than one Modis pack in order to maximise the use of the Modis EDC backpack.
- Gem Rossi added that BackOffice would continue to sell the traditional EDC alongside the Modis version of the EDC.

- All Modis Packs would have the same price point (probably H\$50 but to be confirmed) and the combined selling price of the Modis EDC plus a single internal pack would be higher than the traditional EDC.

Cycle backpacks

- Development is almost complete and the Development Team is very nearly ready to perform the handover to manufacturing. However, launch plans have been postponed due to senior management fears that this product, like the Baby Kit Backpack, will fail entirely or over stretch/dilute the BackOffice brand.
- Gem Rossi stated that additional market research on cycle backpacks, commissioned after the failure of the baby kit backpack, was still ongoing. The cycle backpacks were thought to appeal to a more health-conscious market segment that might be less convinced by the upmarket brand than BackOffice's usual customers. The choice to develop cycle backpacks and not panniers (a cycle bag that hangs off the side of the back of a bike) was made deliberately. This was to maintain continuity of image and retain the essence of what the BackOffice brand stands for. The cycle backpack is intended for transporting a laptop and a change of clothes safely whilst on a commute to work rather than a bag used for more substantial outdoor adventures such as camping and touring.
- A direct competitor is planning to launch a cycle bag and BackOffice would need to respond to this threat should the senior management approve the launch.

Cabin bags

- Development is nearing completion as the prototype has just been approved. There is no firm date for product launch yet.
- This is a new market, and there is already a lot of competition. Gem Rossi stated that the BackOffice branding will help the company to stand out from this competition.
- There will be two models in the range to start with, each designed to meet cabin bag size requirements for most airlines. The cabin bags have been designed to complement the EDC range, and the intention is to target business travellers.

Tax regime in Hland

- The corporate income tax rate to be applied to taxable profits is 25%.
- Unless otherwise stated below, accounting rules on recognition and measurement are followed for tax purposes.
- The following expenses are not allowable for tax purposes:
 - accounting depreciation
 - amortisation
 - impairment charges
 - entertaining expenditure
 - donations to political parties
 - taxes paid to other public bodies.
- Tax depreciation allowances are available on all items of plant and equipment (including computer equipment) at a rate of 25% per year on a reducing balance basis. A full year's allowance is available in the year that the asset is acquired. Tax depreciation allowances are not available for property assets.
- Tax losses can be carried forward indefinitely to offset against future taxable profits from the same business.
- Sales tax is charged on all standard rated goods and services at a rate of 20%. Tax paid on inputs into a business can be netted off against the tax charged on outputs from that business. All businesses are required to pay over the net amount due on a monthly basis.