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Case study



CeeCee retail fashion case study

Industry overview

Over the last decade, the European clothing market has grown by almost 20% (as measured by sales revenue). However, this headline sales figure hides many of the underlying tensions involved when competing in this market sector. The clothing market has suffered from strong deflationary pressures due to the influx of 'value' retailers and intense competition. 'Value' retailers are defined as low price retailers which import low cost clothing manufactured principally in Asia. These 'value' retailers include some high street chains as well as supermarket chains that sell clothing.

Generally, it is accepted that there are three tiers of clothing retailers, which are:

- couture houses and top designer labels
- high street retailers of fashion clothing
- 'value' retailers (as defined above) which retail at the inexpensive end of the market.

There are a wide variety of retailers which compete in high street and shopping centres all over Europe (and some globally) whose prices, quality and branding varies greatly.

Historically, clothing-only retailers dominated the market, taking nearly two thirds of all sales, with large department stores coming second. More recently large supermarket retailers, known principally for their grocery lines, have gained market share with a major push into non-food sales. Furthermore, in an increasingly competitive market, 'value' retailers are also growing quickly. The major force for change in the clothing retail market came from the 'value' retailers which began to offer clothing at extremely low prices. This sector caused traditional retailers to question all aspects of their business models. The sometimes breathtakingly low prices offered by the 'value' retailers changed shoppers' attitudes.

Branding and differentiation were considered to be critical for retailers operating outside the 'value' sector. To achieve effective differentiation, greater focus was required in the areas of quality of design and customer service.

A further opportunity, and challenge, was the introduction of online shopping. The key for shop-based retailers is to integrate the online shop with the wider brand proposition, while building the social and product experience at each shop.

In European surveys of 'consumer's clothing wants', four key trends in consumer behaviour were identified. These impact on the development of clothing retailers' future strategies and are:

- Customers increasingly demand a wider range of sizes and fittings. This creates challenges for larger shops, as well as online operators.
- Improvements within each shop, such as better stock availability, quicker service and improvements to changing rooms.
- Half of all clothing shoppers look at the price tag first when looking at clothes. About a third believed that cheap cannot be consistent with quality. This indicates that there is clearly more to selling clothing than simply price.
- Shoppers are increasingly turning to online shopping, but this has not yet had a significant impact on sales in shops, as research has shown that half of all shoppers think it is necessary to touch or try clothes on before buying. Therefore, making the product accessible is a key weapon for retailers fighting against an online threat.

Another factor in the traditional clothing industry is that the design and production processes often result in long lead times to getting clothing to the shops. Often up to six months is required between the initial design of a garment and its delivery to shops. This model effectively limits manufacturers and distributors to just two or three collections per year. Predicting consumer tastes ahead of time presents inherent difficulties. Therefore clothing retailers face the constant risk of being left with unsold inventory that has to be marked down considerably and sold off. This can often result in over 20% of inventories being sold off in end of season sales at significantly decreased prices, often only barely covering the cost of the production.

CeeCee overview and history

Carla Celli founded CeeCee in 1989 and is currently the chief executive officer (CEO). She is a designer by trade and built up her experience of the industry working for other fashion retailers. When Carla Celli opened her first shop, she used a new business model which is known as 'fast fashion'. Fast fashion essentially replicates the principles of the manufacturing technique of 'Just In Time' (JIT). For details on the fast fashion business model, refer to the paragraph 'Business model and supply chain' on page 4.

Carla Celli opened her first shop in 1989 in her home country with the aim of focussing on up to the minute fashion styles for women at affordable prices. This first shop featured reasonably priced look alike clothing ranges which were very similar to higher-end clothing fashion shops. The shop proved to be a success, particularly with young professional women who wanted to wear stylish clothing but who had limited budgets.

While her initial inspiration was driven by her keen following of fashion trends, she realised that if she wanted to scale up her business model to cover more cities she would have to become much more business minded and try to think outside the box. Following meetings in early 1990 with Paulo Badeo, who had been working as a logistics IT consultant, she decided to implement her ideas for the fast fashion model for a greater number of retail shops. Within six months of their initial meeting Carla Celli had convinced Paulo Badeo to join the board of CeeCee. The company was able to open five shops during 1991 and this was the start of CeeCee as a European-wide retailer.

CeeCee's personnel are detailed in **Appendix 1** on pages 12 and 13.

From the outset some traditionalist logistics professionals argued that the fast fashion model would inevitably fail because the costs of constantly changing and shipping new fashions could not be recouped by high enough margins. They argued that the last twenty years of 'mass' fashion industry experience showed that the way to go was long production runs and the outsourcing of production to low cost producers in Asia. In order to try and address these concerns Carla Celli had recruited a set of experienced professionals in the design, finance and logistics areas to help implement effective cost management, while at the same time allowing the fast fashion model to develop.

By the late 1990's CeeCee was a favourite with European young professional shoppers. At this stage, CeeCee was retailing only women's clothing but Carla Celli had plans to expand into menswear, children's clothing and some home furnishings.

In 2000 CeeCee was listed on a major European stock exchange. The cash raised at the time of the listing enabled a faster rollout of shops across Europe. The listing also gave CeeCee access to less expensive debt finance. At the end of 2000 there were 280 CeeCee shops across Europe.

With cash generated from operations and from the listing, CeeCee has opened around 40 shops each year. At the end of 2008, CeeCee had 610 shops across 18 European countries. Due to

the weak economic climate during 2009, CeeCee only opened 20 new shops, bringing the total number of shops to 630 by the end of 2009. All shops are rented under short-term rental agreements. CeeCee operates and manages all of its shops.

CeeCee now sells men's clothing, children's clothing and a range of home furnishings at selected medium and larger size shops. At the end of 2009, around 500 out of the 630 shops sold men's clothing and around 300 sold children's clothes and home furnishings. However, CeeCee is still considered to be mainly a ladies fashion clothes shop.

CeeCee achieved an overall gross margin of 60.1% during the year ended December 2008. The gross margin is defined as selling price, net of sales tax, less the purchase cost of the product. Neither delivery costs nor any direct sales staff costs have been charged in arriving at the gross margin. All costs, except the purchase cost of the product sold, are included in overhead costs. CeeCee makes a gross profit of 58% on all clothing lines.

The range of home furnishings that CeeCee now sells includes textiles, such as bed, table and bathroom linen, as well as tableware items including cutlery, glassware and decorative home items such as mirrors and picture frames. The home furnishing ranges are constantly being updated and new designs launched, which are proving very popular with CeeCee's target customers of young professionals, as they set up their own homes. The home furnishings range, which represents only 4% of total sales revenue, generates a higher than average gross margin at 72%.

Another product range that generates high gross margins is clothing accessories, such as handbags, hats, shoes, men's ties and jewellery. All CeeCee shops stock limited ranges of accessories, whereas in large sized CeeCee shops, the full range of accessories is on display throughout the shop to encourage shoppers to purchase, for example, new shoes together with a new dress. The gross margin achieved on accessories averages 75%, but some products generate an even higher gross margin. Accessories are a product range which Juliette Lespere, the sales and marketing director, would like to expand.

A summary of CeeCee's shops and relevant key statistics is shown in **Appendix 2** on page 14.

The success of CeeCee's shops is attributed to several key factors, including its innovative business model, as detailed below. However, the five key factors are considered to be:

1. Prime locations for all of its shops, and in some city centres CeeCee has seized the opportunity to use historic buildings in key shopping areas.
2. Spacious shops which use sophisticated architectural details and designs to make shops appealing to customers to browse and to provide a comfortable environment in which to shop.
3. Carefully designed shop window displays which are changed at least once each week, allowing the latest clothing designs to be showcased to prospective customers.
4. Careful and visually appealing layout of clothing displays, so as to attract customers to choose coordinating clothes and accessories and to maximise sales revenue.
5. Excellent customer care. CeeCee carefully recruits and trains all of its employees to ensure that the customer is put first. This philosophy is behind all aspects of the work in all of CeeCee's shops. The emphasis is put on providing an uncrowded pleasant shopping experience where the customer is not approached by shop staff unless asked, but shop staff are constantly available if required. All shop managers encourage team work and the building of long term working relationships to improve the standard of customer care.

Business model and supply chain

The traditional method of high inventories and long lines of products to prevent 'stock-outs' where demand exceeds supply has been ignored. In traditional retail sales, a 'stock-out' is considered to be the worst scenario. However, CeeCee's business model aims to generate sales in an entirely different way.

CeeCee targets its customers by making its clothes appear to be exclusive by having short production runs of many designs. Indeed in 2009, CeeCee had over 250,000 product lines each year (each size or colour of the same clothing item represents a different product line).

Each shop stocks limited numbers of each design and there is an air of exclusivity, since only a few products of each range are on display. This has resulted in customers making quick decisions to buy what they see, as they know that there is a chance that if they do not buy when they first see the item, they may lose the chance if it is sold out or not available in the size or colour that they would like.

This fast fashion concept relies on four key factors:

- sophisticated IT systems that feedback sales data to head office daily
- close contact, via IT systems, with all of CeeCee's manufacturers
- fast creation and supply to shops of small numbers of new products
- swift sale of new inventory items, shortening the product life cycle.

CeeCee employs over 180 designers, all of whom are young (with an average age of 27) who create approximately 15,000 new designs each year. CeeCee uses a range of clothing manufacturers, both in Europe and in Asia, who are contracted to work exclusively for CeeCee. They work closely with CeeCee's designers and are linked into CeeCee's IT inventory control systems and have daily updates on what items to produce and what products to discontinue.

CeeCee manages to produce very fast turnarounds for its fashion designs. CeeCee's designers have the systems in place to ensure that the time taken from final design to the product being in the shops has reduced. Currently, with CeeCee's IT support systems, it is able to get some new product designs into its shops within just 10 to 15 days.

This fast fashion system depends on a constant exchange of information throughout every part of CeeCee's supply chain, which includes shop managers, designers, production staff, buyers and external clothing manufacturers. The supply chain also includes complex logistics to enable the correct level of inventory to be delivered to shops at the right time.

CeeCee's logistics run well and are very reliant on a good outsourced distributor (EIT) and its own sophisticated IT systems.

CeeCee's fast fashion model results in its retail stock being constantly changed with new designs. Instead of having two or three seasons of clothes each year, CeeCee has a rolling production of new designs with new clothing designs appearing in shops every three weeks on average. This encourages customers to return often to its shops, with the average number of visits to a CeeCee shop being around 17 times each year rather than four times a year for traditional fashion retailers. CeeCee's customers know that clothing items will only be available for a short time and this encourages them to make their purchases more quickly, as they know that if they returned a day or two later, the CeeCee shop might no longer have the item in stock.

CeeCee also prices its clothing in a different way from traditional retailers. Instead of using the cost plus principle, CeeCee prices its clothes in a competitive way in each of the countries in which it competes. CeeCee's sales and marketing director, Juliette Lespere, is aware that if the clothes are priced too cheaply, they will appear as if the quality is low. Therefore each product is

priced based on an element of exclusivity which ensures that the price is competitive but at a premium to that of lower quality competitors.

When CeeCee first launched its fashion range in its first shops in the 1990's, CeeCee used a network of small sewing cooperatives in rural areas of Carlo Celli's home country. As the number of shops grew and the range of products expanded, the company appointed a range of manufacturing companies to produce its clothing. CeeCee still uses the original sewing co-operatives for some of the quality stitching on its top of the range products.

CeeCee's operations director, Paulo Badeo, has set out a number of specific criteria to its potential suppliers. These have ensured that long-term working relationships, that are beneficial to both parties, are being achieved. Obviously CeeCee has chosen its suppliers well, as it has had very few major problems with any of its suppliers and almost all of them are still supplying clothes or furnishings to CeeCee. Furthermore, the clothes are selling well and sales revenue is at an all time high.

The criteria CeeCee uses in the selection of its suppliers are:

- quality of production
- ethical workplace practices including safety issues and minimum age for workers
- agreed code of conduct
- ability to be flexible to meet the changing needs of CeeCee's customers
- meets CeeCee's purchase price targets
- operates in a country that recognises the legal protection of intellectual property rights (IPR's).

CeeCee also audits all of its suppliers on a regular basis to monitor a variety of key production aspects. CeeCee has established a close relationship with all of its suppliers, all of which are sharing in CeeCee's growth and success. At the end of 2009 CeeCee had over 350 suppliers.

The locality of supply has changed over the last decade, due to the low cost of production in Asia and also some Eastern European countries. Initially 100% of CeeCee's production was sourced in Europe. In 2001, CeeCee started sourcing some of its standard products (including woollens and cotton t-shirts) from Asia. By the end of 2009 over 30% of products were manufactured in Asia. The remaining 70% are manufactured in a number of European countries. Around a third of the clothing manufactured in Asia is air freighted to Europe, rather than being shipped by sea, to speed up the time taken from design board to shops.

CeeCee has a large distribution centre in Northern Europe, close to a shipping port, which enables it to move all products, with the minimum of handling, to meet the inventory requirement for each of its shops.

CeeCee's head designer, Laura Russo, is keen that all of CeeCee's designs are innovative and at the leading edge of the current trends, without making the clothing too dramatic. The designers all follow the fashion shows of leading fashion designers and use the current trends for their designs. The designers are not allowed to copy another designer's idea, due to intellectual property rights owned by the original fashion house. However, they can change aspects of the garment to make it slightly different, but still appear to be a High Street copy of a designer label clothing item. It is a fine line, but Laura Russo always wants CeeCee's designs to have a style of their own rather than a copy of other designers. Indeed, several other High Street retailers have in the past launched their own version of CeeCee's designs.

Inventory analysis

As stated above, CeeCee does not concern itself with 'stock-outs' and has a continuing stream of new products arriving at its shops throughout the year. If a product is selling well, then further manufacturing runs may be agreed, depending on what other new replacement products are due at the shops.

CeeCee carries a reasonable level of inventory at each of its shops and also its central distribution centre carries some inventory for its vast numbers of product lines. There are often peaks and troughs in inventory levels due to different factors that affect inventory, such as:

- seasonal factors – larger numbers of party clothes are stocked in the period up to Christmas
- more sales are made in the middle and end of each month, coinciding with the dates that monthly paid customers get paid and have cash available for purchases
- large deliveries of new clothes arriving at the distribution centre in Europe.

The average number of days for all types of inventory was 97 in 2008, a small increase from 90 days in 2007. The latest forecast for 2009, is a decrease to 94 days. CeeCee has a policy that slow moving clothing lines are withdrawn from the shop floor within 21 days. These products are rarely put in end of season sales. They are sold in bulk at very low prices, sometimes below the cost of production, to distributors who will sell them through other sales channels. These alternative sales channels include selling at market stalls or through smaller clothes shops that sell only end of lines from a variety of other high street clothing retailers.

CeeCee is fortunate that as a result of its short production runs and its ability to closely monitor sales, only about 10% of its volume of clothing purchases is sold off in this way. Many other retailers experience wastage or unsold items of over 20% of their clothing volume of purchases.

CeeCee's integrated inventory system (see below) has enabled management to develop and closely monitor its flexible supply chain and this allows the company to maintain greater control over its inventory. Due to the detailed inventory control system, inventory of slow moving items are written down (or written off) on a regular weekly basis, so that inventory is correctly valued at the lower cost or realisable value.

IT systems

CeeCee has invested in its IT systems to enable the fast fashion model to work. CeeCee employs its own IT staff but it also outsources some specialised design and update work to a leading global IT solutions specialist company. This enables CeeCee to take advantage of continuing enhancements in retail and inventory management systems.

Its integrated inventory, production and logistics system, known as CCIPL, has had to be continuously improved and enhanced to meet the changing number of shops, suppliers and numbers of product lines. It had recently undergone a large upgrade at a cost of over €40 million to enable all shop managers to be able to review sales data and amend orders using a handheld PDA (Personal Digital Assistant).

At the end of 2009, CeeCee invested over €10 million in the launch of its website to offer online shopping to its customers. The newly launched website is clear and easy for customers to use and allows customers to view inventory levels. It also enables customers to zoom in closely on all angles of each product, thereby allowing them to get as close to the product as online shopping allows.

CeeCee's finance systems, CCF, interface directly with the CCIPL system. The CCIPL system feeds sales data, cost of sales data, inventory and many other costs directly into the CCF system enabling the production of monthly management accounts and annual statutory

accounts. The system also has the ability to generate weekly and daily sales revenue and margin information for management to monitor actual against planned.

The management team and all executive directors have access to an executive information system, called CCIS, which highlights key variances from agreed budgets and plans. This system identifies where sales revenue differs (either higher or lower) from plans and generates exception reports on margins or fast selling production lines. The CCIS allows the management team to drill down to identify what is happening at each shop, or by country or product line or product category. This enables the management team and the designers to closely monitor sales data within one working day and to compare data to plans and to take action where a new product appears to be successful, or unsuccessful, in the shops.

CeeCee's competitors

CeeCee is operating in a very competitive market. Furthermore, in the current economic environment, CeeCee is trying hard to retain its customers, some of which are now making purchases from 'value' retailers who are not direct competitors.

CeeCee has shops in key locations in high streets and shopping centres in cities across 18 countries in Europe. All fashion retailers have had to react to increased competition and the effect the economic situation has had on customers' spending.

A summary of key statistics for CeeCee and for some of its many competitors is shown below:

All figures for year ending in 2008	CeeCee	Competitor 1	Competitor 2	Competitor 3
Sales revenue €m (excluding sales tax)	2,700	9,400	3,700	2,500
Gross margin (%)	60.1	56.2	59.0	55.7
Number of shops (end year)	610	3,850	900	600
Number of countries	18	75	35	20
Sales area – end year (square metres)	632,000	2,140,000	850,000	650,000

Financial results and business plan

CeeCee is a highly profitable business with an operating profit margin, before finance costs and tax, of 22.8% for the year ended 31 December 2008 (based on operating profit of €616 million).

As noted above, all sales revenue figures exclude any sales tax (such as VAT) and gross margins are stated after the purchase cost of the manufactured products only.

Extracts from CeeCee's 'statement of comprehensive income', 'statement of financial position' and 'statement of changes in equity' are shown in **Appendix 3** on page 15.

CeeCee's finance director, Diane Innes, is pleased that the latest full year forecast for 2009 is not as bad as was first feared, although it was lower than originally planned. The full year forecast for the year ended 31 December 2009 generated an operating profit (before finance costs and tax) of €634 million.

The accounts for the year ended 31 December 2009 have not been finalised, or audited, yet. However, Diane Innes is confident that the actual accounts will reflect the results shown in this latest full year forecast for 2009.

The latest five year plan has been prepared and was approved by the CeeCee board at the end of November 2009. It includes sales from online shopping, as well as, the roll out of new shop openings, with 800 CeeCee shops in operation by the end of 2014. These new shop openings include expansion outside of Europe. Sales revenue is planned to rise from current levels of nearly €3 billion to over €5.1 billion by 2014.

CeeCee currently has two loans, totalling €300 million, with a total of €32 million payable in finance costs each year on these loans. One of the loans is for €200 million, at 12% interest per year, and it is repayable in October 2014. It is planned that a new loan will be taken out in 2014 to cover the repayment of this loan and to generate funds required to meet the agreed expansion plans. The second loan is for €100 million, at 8% interest per year and is due for repayment in July 2016.

Extracts from CeeCee's five year plan, together with the latest forecast for 2009, are shown in **Appendix 4** on page 15. All financial figures shown in the plan are based on 2009 prices.

Trading conditions in the last 12 months

CeeCee, as well as many other retailers, experienced exceptionally difficult trading conditions at the end of 2008 and during 2009 due to the world recession. The start of 2009 was particularly difficult with low numbers of customers at all of its shops across Europe. Some countries fared better than others, although the number of people going shopping and making purchases fell considerably. Some shopping centre statistics stated that the footfall (defined as the number of people visiting a shopping centre) was down over 40% from previous comparable periods.

CeeCee's like for like sales (based on same selling space) during 2009 were down 2%. Some other clothing retailers ceased trading, whilst others experienced sales revenue falling by 20% or more. Overall, Carla Celli considered that CeeCee had survived this particularly difficult trading period rather well. CeeCee only opened 20 new shops during 2009, compared to the original plan of 40, and the additional shops added 5.1% to the total sales area for all CeeCee shops at the end of 2009, to a new high of 664,000 square metres.

2009 was an unusual year for sales of different product lines. Sales of suits and white shirts, for men and ladies, increased substantially. These products replaced previously high sales volumes of party clothing, as more young professionals purchased smart clothes for work rather than for social occasions. However, there was a large inventory write down for clothing ranges that had not sold as expected and most of these clothes were sold at below cost price. Children's clothing stayed more or less at the same volume as 2008, and home furnishings were down by 10%. However, as the home furnishings products have a longer selling life (as they do not go out of fashion as quickly), there were fewer inventory write downs on the home furnishings products. Overall, despite inventory write downs, the forecast operating profit margin remained at 22.8%.

CeeCee reduced the number of employees at some shops in the early part of 2009, with fewer part-time employees. CeeCee, as a responsible employer, did not make any full-time employees redundant at all, but there were some full-time positions that were not filled when an employee left the company.

At the end of 2009, CeeCee had just over 44,000 employees. However, the majority of these employees work part-time, with an average of only 12 hours worked each week. The number of full-time equivalent (FTE) posts was 12,880 at the end of December 2009.

Marketing

Juliette Lespere is CeeCee's director of sales and marketing and she joined the company in 2008. She has been trying to introduce a number of changes to the way in which CeeCee markets itself and has been fighting for a larger marketing budget. So far she has been unsuccessful, as Carla Celli considers that the CeeCee designs and the shops are the group's greatest assets and that money spent on marketing is not necessary.

With the difficult trading conditions in 2009, Juliette Lespere was under pressure to deliver sales revenue as close to the original planned level as possible. A number of new marketing initiatives were trialled, and some were more successful than others. She considered that the company did well, with sales only down 2% from 2008 on a like for like basis.

CeeCee has a marketing budget of 0.5% of sales revenue, which in 2009 was around €14 million. Many other High Street retailers have marketing budgets of 6 or 7 times this amount at approximately 3 to 4% of sales revenue.

Instead of advertising on TV and in fashion magazines, the CeeCee fast fashion business model is based on the shops being the main medium for advertising. CeeCee aims to entice customers into its shops by selecting prime locations for its shops and having its new clothing displayed in limited quantities in its shop windows. Market research has shown that CeeCee customers visit its shops more frequently than they might other clothing retailers. In a recent survey, retail customers were asked how many times each year they went shopping for clothes. In respect of the usual high street retailers, the answer averaged only four times per year compared with 17 times each year for CeeCee's customers.

Juliette Lespere wants to have a larger marketing budget so that she can allocate funds to shop managers to run local events to attract customers into their shops and boost sales revenue. She also considers that e-marketing is a tool not used as effectively as it could be. She is working with Roberta Downs, the IT Director, to get automated links to customers who make online purchases, so that this data can be used to ask the customer to complete a short feedback survey and to reward them with discount vouchers against further purchases.

Juliette Lespere is also concerned that a small number of shops (fewer than ten) are not in the best location for those cities. When they were opened, over 15 years ago, they had a prime site, but now newer shopping centres have opened, and she wants the CeeCee shops moved to better locations. She is working closely with Ruth Giddens, the head of property management, to secure better locations. The other board members agree that whilst Juliette Lespere has been impatient for change, she has brought a fresh outlook to the company and has an eye for detail that could make CeeCee shops even more successful.

Capital expenditure and shop opening plan

At the end of December 2009, CeeCee had 630 shops open. A summary of shops and relevant key statistics is shown in **Appendix 2** on page 14.

In order to maintain flexibility and to grow the chain of CeeCee shops as quickly as possible, all shops are rented. The only premises that CeeCee owns are:

- Head office building which accommodates all departments, including designers, administration, IT and purchasing. The net book value of the Head Office building as at 31st December 2008 was €150m and its market value at the same date was €155m.

- Distribution centre – all products that have been procured from Asia arrive at this centre, together with the majority (but not all) of products manufactured in Europe. Where possible, goods are delivered direct to shops rather than moving into, and then out of, the distribution centre. As at 31 December 2008 this distribution centre had a net book value in the balance sheet of €325m and its market value at the same date was estimated to be €350m.

At the end of 2009, CeeCee's gross value of non-current assets was €2,472 million. This represents the costs of the shop fittings at all 630 shops, the Head Office, the distribution centre, IT equipment and owned vehicles (not delivery lorries as delivery is outsourced). The accumulated depreciation provision at 31 December 2009 was €985 million; resulting in net non-current assets of €1,487 million (at 31 December 2008 net non-current assets were €1,438 million).

CeeCee's policy is to completely refurbish all shops about every seven years, and sometimes more quickly. Shop fittings are depreciated over seven years. IT equipment installed in shops (to capture inventory and sales details by product line) as well as all head office IT equipment is depreciated over a four year life. The fixtures and fittings at CeeCee's owned premises (head office and distribution centre) are depreciated over an eight year life, and the value of the buildings is depreciated over a 50 year life.

The capital expenditure on new shop openings currently runs at around €100 million each year. A further €70 million was spent on shop refurbishments during 2009. As the number of shops increases over the next 5 years, the cost of the rolling refurbishment programme increases to over €162 million during 2014.

The properties are well managed by Ruth Giddens, the head of property management. When a city is selected for CeeCee's expansion, she works hard to find and secure a competitive rental agreement on a suitable shop. She is proud to state that the expansion programme has never been held up by a delay in finding a suitable location for the next CeeCee shop. Furthermore, Ruth Giddens is working closely with other CeeCee board members to secure better locations in some cities that have opened new shopping centres, to ensure that CeeCee shops are always sited in a position to attract its target customers.

CeeCee's shareholders and relevant financial statistics

CeeCee became a listed company almost ten years ago and the company has seen strong growth in sales, number of shops and earnings per share (EPS). The company has 100 million shares in issue and the majority are held by institutional shareholders.

The company made a profit (after finance costs and tax) of €416 million in 2008, resulting in EPS of €4.16 per share. The profit for the year ended 31 December 2009 is expected to be €424 million, which is in accordance with the forecast. This equals EPS of €4.24, a growth of only 1.9%. Investors were generally pleased with the forecast performance in 2009, particularly in a difficult trading period.

The board has indicated that dividends will remain at the same payout rate as paid in 2008 and 2009 i.e. it will pay out 50% of the year's profit as dividend.

CeeCee's share price at 31 December 2009 was €33.70 per share with a market capitalisation of €3.37 billion. Prior to the recession, CeeCee's shares were trading at over €45.00 per share.

Corporate social responsibility (CSR)

As would be expected of a listed company such as CeeCee with over 44,000 employees and operating in 18 European countries, it takes its CSR responsibilities seriously.

Jeroen de Joost, CeeCee's head of environmental impact is responsible for all aspects of CeeCee's CSR reporting. This involves developing initiatives, getting proposals approved, data capture and monitoring and regular reporting on CeeCee's CSR aims.

An extract from the draft CSR report for the year ended 31 December 2009 is included in **Appendix 5** on pages 17 and 18.

CeeCee's corporate aims

The board of CeeCee is focused on the following priorities, particularly in the current economic environment:

1. Consistently delivering products that align with our target customers.
2. Improving customer experience and continuing to invest in shops to achieve an improvement in return on invested capital.
3. Managing inventory to protect operating profit margins.
4. Monitoring and improving gross and operating profit margins by improving operational efficiency.

Appendix 1

CeeCee personnel

Non-executive chairman - Frank Bartoli

Frank Bartoli, aged 48, joined the CeeCee board just before the company became listed in 2000. He brings a wealth of commercial experience having been in senior positions for a leading global fashion brand for many years. He has enjoyed the challenges of CeeCee's fast growth and has aspirations for expansion of the group outside of Europe.

Chief executive officer (CEO) - Carla Celli

Carla Celli is 52 years old. After starting her career as a designer, she moved on to managing retail fashion shops before she launched CeeCee. Her idea for CeeCee was to employ young designers, often recent graduates of Italian fashion schools, to re-interpret current catwalk fashions. CeeCee's shops soon became favourites with young professional women who wanted to look fashionable but at a reasonable cost.

Operations director - Paulo Badeo

Paulo Badeo, who is 53, is an old school friend of Carla Celli's and they had kept in touch while he studied for an engineering degree at a prestigious Italian University and then a Masters degree in operations research at a leading US graduate school. Paulo Badeo had worked for around ten years in the USA for a leading IT company and subsequently for a specialist IT logistics consultancy company. Paulo Badeo joined CeeCee in 1990 and was instrumental in the roll out of the CeeCee brand across Europe. He also manages all supplier purchases, helped enormously by a very competent procurement manager.

Finance director - Diane Innes

Diane Innes is 42 years old. Instead of the more 'traditional' career path of working for years in a large Italian conglomerate or audit partnership, Diane Innes had studied economics and accounting in the UK at undergraduate level before qualifying as an accountant with an internationally recognised accounting body. She had been employed in a middle management finance role for ten years and had established a good reputation for managing change. She joined CeeCee in 1999, just before CeeCee was listed, and has driven through some tough changes and cost management techniques throughout the company.

Head designer - Laura Russo

Laura Russo is 39 years old and a graduate of a prestigious postgraduate school of fashion based in Italy. After leaving fashion school, she started her own design studio and also opened a shop in Italy. Although her designs had repeatedly received plaudits in the Italian fashion press, she found the administration concerned with managing a shop distracted her from her passion of designing. She joined CeeCee as a designer in 1995, and worked her way up to the role of Head Designer in 2003. She actively recruits talented young designers to ensure that there is a pool of designers who can achieve the vast number of new designs that are required each year to maintain CeeCee as a leader of fashion clothes for both men and women.

Head of logistics - Jim Bold

Jim Bold is a 52 year old engineering graduate but has worked in logistics roles all over the world. He joined CeeCee in 2002 and has been instrumental in improving the time taken to get new designs from the design board to the finished clothing item in over 600 shops across Europe.

Human resources director - Alan Howard

Alan Howard is 48 years old and has held a senior position at a leading HR consultancy company. He wanted a challenge, and after working closely with CeeCee in a consultancy role, joined the company around 10 years ago. He has seen the number of employees rise from 2,000 to the current level of over 40,000. Many shop-based employees work part-time, and in total, including Head Office, there were over 44,000 employees, equivalent to 12,880 full-time equivalent (FTE) posts at the end of 2009.

IT director - Roberta Downs

Roberta Downs is 38 years old with considerable experience working for major IT consultancy firms. She is a very accomplished manager and has a reputation for meeting both deadlines and clients' expectations. Her friends were surprised when she left the 'big IT league' to join CeeCee. She argued that she needed the challenge of something new rather than working on huge IT projects, and wanted to become part of a new wave of IT professionals working at the cutting edge of the fashion industry. She did mention in confidence to a close friend that she only intended to stay at CeeCee for a maximum of five years to gain experience, before setting up her own specialist fashion IT consultancy.

Sales and marketing director - Juliette Lespere

Juliette Lespere is a 35 year old graduate with an MBA from a world class USA based business school. During her MBA studies, she discovered a passion for marketing and then she worked briefly as a marketing manager for two USA based internet start up companies. Then she worked for a fashion house in the USA, which sparked her interest in the challenges of fast fashion. She joined CeeCee in 2008 after the sales and marketing director left for a rival retailing company.

Head of property management - Ruth Giddens

Ruth Giddens is 58 years old. She has worked in property management all of her career, latterly for an international property developer. She wanted a more challenging role and brought a wealth of experience to CeeCee when she joined in 2005.

Head of environmental impact - Jeroen de Joost

Jeroen de Joost is 48 years old and worked for a global oil company for the last 22 years. He had progressed through the ranks of the organisation moving between jobs in general management before finally settling in the corporate social responsibility (CSR) department as a junior manager. After more than 22 years with the company, a sustained period of low commodity oil prices resulted in a number of redundancies in middle management and he was made redundant. He was pleased to join CeeCee which takes its CSR responsibilities seriously.

Non-executive directors

CeeCee has six non-executive directors on the board.

Appendix 2

Summary of CeeCee's shops and relevant key statistics

	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009
	Actual	Actual	Latest full year forecast
Number of shops:			
Start of year			
Large	60	80	100
Medium	164	190	210
Small	300	300	300
Total	524	570	610
New shop openings			
Large	20	20	10
Medium	26	20	10
Small	0	0	0
Total	46	40	20
End of year			
Large	80	100	110
Medium	190	210	220
Small	300	300	300
Total	570	610	630
Average for the year			
Large	70	90	105
Medium	177	200	215
Small	300	300	300
Total	547	590	620
Total sales area (all shops in square metres)			
- end of year	568,000sqm	632,000sqm	664,000sqm
- average for the year	532,400sqm	600,000sqm	648,000sqm
Average sales area (square metres)	973sqm	1017sqm	1045sqm
Average sales revenue per square metre €	4,429	4,500	4,292
Average gross margin %	59.8%	60.1%	59.1%
Operating profit €m (before finance costs and tax)	534	616	634
Average operating profit	22.6%	22.8%	22.8%

Appendix 3

Extracts from CeeCee's accounts: Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity

Statement of Comprehensive Income

	Year ended 31 December 2008	Year ended 31 December 2007
	€ million	€ million
Sales revenue	2,700	2,358
Operating costs	<u>2,084</u>	<u>1,824</u>
Operating profit	616	534
Finance costs (net)	22	26
Tax expense (effective tax rate is 30%)	<u>178</u>	<u>152</u>
Profit for the period	<u>416</u>	<u>356</u>

Statement of Financial Position

	As at 31 December 2008		As at 31 December 2007	
	€ million	€ million	€ million	€ million
Non-current assets (net)		1,438		1,363
Current assets				
Trade receivables	24		20	
Inventory	286		234	
Cash and cash equivalents	<u>313</u>		<u>174</u>	
		623		428
Total assets		<u>2,061</u>		<u>1,791</u>
Equity and liabilities				
Equity				
Share capital	50		50	
Share premium	40		40	
Retained earnings	<u>1,038</u>		<u>830</u>	
		1,128		920
Non-current liabilities		300		300
Current liabilities				
Trade payables	455		419	
Tax payable	<u>178</u>		<u>152</u>	
		633		571
Total equity and liabilities		<u>2,061</u>		<u>1,791</u>

Note: Paid in share capital represents 100 million shares of €0.50 each at 31 December 2008

Statement of Changes in Equity

	Share capital	Share premium	Retained earnings	Total
	€ million	€ million	€ million	€ million
Balance at 31 December 2007	50	40	830	920
Profit for the period	-	-	416	416
Dividends paid	-	-	208	208
Balance at 31 December 2008	<u>50</u>	<u>40</u>	<u>1,038</u>	<u>1,128</u>

Appendix 4

2009 Full year forecast and extracts from five year plan

	Latest Full year forecast	Extracts from five year plan				
	2009	2010	2011	2012	2013	2014
		<i>Note: All figures shown in the financial data below are based on 2009 prices</i>				
Number of shops:						
End year	630	650	672	702	750	800
Average for year	620	640	661	687	726	775
Sales area for all shops (square metres)						
Average for year	648,000	680,000	713,200	752,400	808,800	879,600
	€ million	€ million	€ million	€ million	€ million	€ million
Sales revenue *	2,781	2,985	3,319	3,781	4,390	5,156
Operating profit	634	690	780	896	1,045	1,237

* Sales revenue for 2010 to 2014 includes sales revenue generated by shops and online trading

Appendix 5

Extracts from CeeCee's corporate social responsibility (CSR) report for the year ended 31 December 2009

Product suppliers

In 2009 the company audited and pre-qualified all new suppliers for compliance with the existing code of conduct for suppliers, which states that our goods must be produced lawfully, without exploiting the people who made them, in decent working conditions and without damaging the environment.

Actions for 2010: the company will publish a new *Guidebook to the Code of Conduct*. The number of supplier audits will increase to ensure that all suppliers are visited at least once each year.

Product quality

In 2009 the system of independent product testing, to ensure that no substances are used that are recognised to pose a threat to human or environmental health, was expanded to ensure that all products are tested annually.

Actions for 2010: the system of independent product testing will be further expanded to test all new products before they are sold.

The range of Fair Trade products and organic cotton products will be expanded.

Suppliers' employees

In 2009 a number of studies and pilot projects explored the extent to which suppliers paid workers a living wage. These showed that the suppliers concerned paid more than neighbouring companies supplying other customers and appeared to pay more than any legal minimum wage in force locally. These studies considered all payments made, including overtime.

Actions for 2010: studies are planned to enable CeeCee to assess further what a living wage is. Studies are also planned to understand some of the potential problems CeeCee's suppliers have, in respect of the suppliers' employment of migrant workers.

Energy efficiency

In 2009 a decision was taken that every major shop refurbishment would include re-wiring work to isolate essential and non-essential lighting during non-trading hours. Changing from high energy lighting to energy efficient alternatives has continued during the year.

Actions for 2010: it is planned to finish the installation of energy efficient lighting at all shops and at head office. A new project will commence to install smart meters to minimise waste of electricity.

Transport

In 2009 our road transport partners, delivering clothing and home furnishing products to shops continued to reduce emissions per delivery. They achieved this by using more efficient scheduling of deliveries and by replacing vehicles on a three year cycle to keep up-to-date with the latest fuel efficiency technology.

Actions for 2010: a new vehicle tracking system will be introduced to monitor mileage and to reduce 'miles per product'.

Packaging, recycling and waste

In 2009 all shops made great efforts to recycle waste. Some 85% of waste in shops is polythene and cardboard, and virtually 100% of this is collected and recycled.

Actions for 2010: a number of schemes will be initiated to recycle clothes hangers.

Decision has been taken to reduce the size and weight of plastic carrier bags. The new bags will be phased in as existing contracts for the supply of the current carrier bags come up for renewal.

A CeeCee branded organic cotton carrier bag will be launched at a low price, so that all customers can re-use the bag that they purchased CeeCee clothing in.

Product packaging standards were reviewed in 2009 and it is planned to further reduce the amount of packaging by eliminating the use of tissue paper and also to use thinner polythene.

Health and safety

In 2009 new procedures were introduced for training new staff in safe working procedures.

Actions for 2010: these procedures will be reviewed and rolled out to all shops.

All staff will be offered first aid courses.

Workplace diversity

In 2009 the company reviewed and reworded a policy statement that demonstrated that the company is fully committed to the elimination of unlawful and unfair discrimination in recruitment and employment.

Actions for 2010: independent auditors will conduct a review of practices in a range of shops and the extent to which practice is consistent with group policy.