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**MAY 2018 Operational Case Study examination
Pre-seen material**



Mansako

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Job Description

You are a Finance Officer for Mansako. Your main role is to support Gwen Giovanni, the Finance Manager and be involved with the production of the annual budget, producing monthly management accounts and providing information to management as required. You will also assist with the preparation of the annual financial statements and deal with any queries regarding financial reporting.

Company Background

Founded in 1971 in Lowerland, Western Europe, Mansako is a vertically integrated luxury leather goods brand. The company's shares are listed on Lowerland's international stock exchange. The local currency is the L\$. The company designs, manufactures, markets and sells their luxury leather products for women, under the Mansako brand name.

In 2007, the company expanded its operations overseas and grew dramatically from 2007 to 2012, with revenue reaching L\$219 million with pre-tax profit of L\$46.8 million, however, between 2012 and 2015 the company suffered falling sales revenue and profits. In 2012, the company introduced their brand to the high-end luxury market with an accompanying increase in selling prices, this failed dramatically.

In 2015 a new creative director, Joseph Carelli, was appointed. At this time the company committed to selling handbags at lower price points, between L\$650 and L\$1,600. These changes along with the introduction of new product ranges, resulted in improved financial performances in both 2016 and 2017. Reported sales revenue in 2017 of L\$218.5m, was almost back to the 2012 level, however pre-tax profit was relatively low at L\$9.8 million.

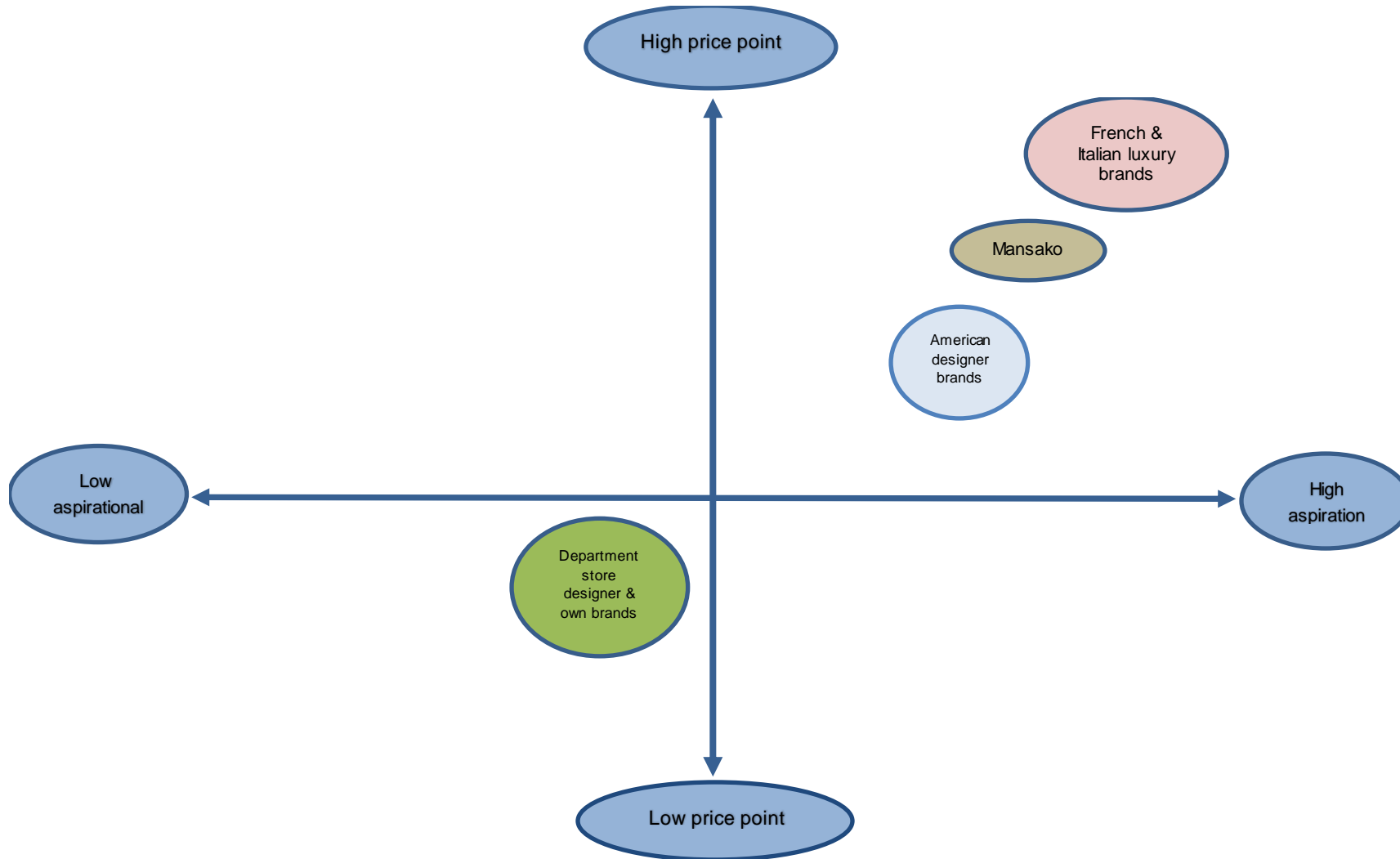
The customers

Mansako's customers expect high quality products and excellent service. They admit to conspicuous consumption, buying luxury products for the status that comes with their possession. Status is now less about 'what I have' and more about 'who I am'. Most customers avoid buying luxury products that do not have ecological sustainability.

Mansako's customers are aspirational consumers seeking to trade-up from the mid-priced goods range, but are still either unable to afford, or do not want, to pay the significantly higher price tags that high-end luxury commands. Millennials and Generation Z demographic grouping present the strongest demand for this affordable luxury price category, seeking value for money whilst simultaneously seeking a higher quality of life. As a result, a significant proportion of Mansako customers are well-informed about, and proficient in the use of, technology and are just as likely to make purchases using Mansako's app on their mobile phones as in a store.

Extract from a corporate marketing document

Mansako market positioning



The products



Mansako's product range includes leather handbags, which represent around 90% of sales revenue and leather accessories such as tablet cases, mobile phone cases and purses. The Mansako brand is seen as affordable luxury recognisable by its logo, a golden 'M', on the front of its handbags and accessories. It sells its products through 119 company-owned stores in 26 countries, the brand's web site (mansako.com) and selected third-party retail partners.

Leather goods remain the core commercial focus for the company in the short to medium term. Future developments will include extending the range of bags by introducing new sizes and new designs, to cover all functions and lifestyles.

The ultimate objective is to reinforce Mansako as a lifestyle brand by offering complementary categories to its core leather goods ranges. As part of the initiative to develop these new categories, the company will continue to invest in targeted product development and marketing.

The People

The company has over 1,400 employees, the majority of whom are based in Lowerland. Of these, approximately 700 are employed in the company's factory in Lowerland. It is seen as a good employer, many of the factory employees have been with them for over 20 years. The company operates a successful apprenticeship scheme aimed at producing highly-skilled factory employees and encouraging new creative talent.

The company's senior management team has changed significantly over the past few years. The current team is relatively young, enthusiastic and engenders a culture of creativity and innovation throughout the organisation and bring previous experience of the luxury goods industry to the company.

Mansako's Senior Management Team



Anders Bucatti (42) Managing Director

Anders was appointed as Managing Director in 2014 and is credited with turning the company around after the difficulties faced from the failure to take the brand into the high-end luxury sector. He recognises that there is still a lot of work to do to improve the brand's current market position and has appointed a new senior management team to assist him in that aim.



Melanie Zhang (38) Sales and Marketing Director

Melanie was appointed as Sales and Marketing Director in 2015 and brings significant experience in the luxury goods industry particularly in the Asian markets. Melanie is keen to see the company expand into other products and markets.



Roberto Rossi (45) Finance Director

Roberto joined the company in 2016 with the aim to turnaround the company's financial position following a number of years of poor trading results. Roberto has no previous experience in this industry but has a reputation for improving the financial position of struggling companies. Roberto aims to ensure that the company's resources, both financial and other resources are used as efficiently and effectively as possible.



Joseph Carelli (32) Creative Director

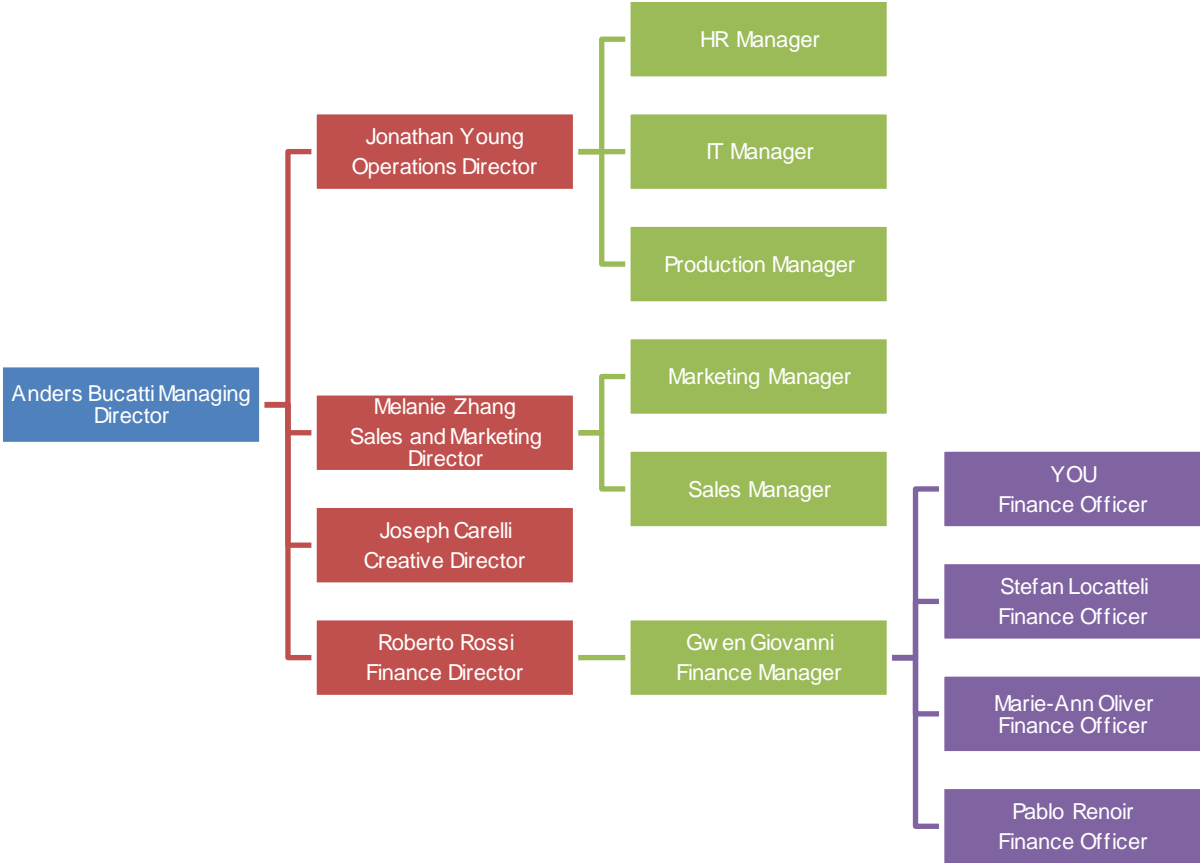
Joseph was appointed in 2015 and is seen as a rising star in the industry. It is Joseph's new ranges of handbags which have been instrumental in improving the recognition of the brand in the market.



Jonathan Young (43) Operations Director

Jonathan was appointed in 2016 and has made significant changes in some areas of the company's operations. He recognises the need to make further changes particularly in the company's systems to improve the efficiency and effectiveness of the company's operations.

Extract from Mansako's Organisation Chart



Company Operations

Design

Mansako's design studio is based in New York, where seasonal collections are conceived. Brand and marketing activities are also based in New York with the support of offices in Paris and Tokyo.

The seasonal collections are presented twice a year at the London, New York and Paris fashion weeks. Each collection includes a mix of new designs and variations on old designs.

Production

The company's products are manufactured at its factory in Lowerland, reinforcing the authenticity of the Mansako brand and, at a practical level, contributing to the attainment of high product quality standards. The 'Made in Lowerland' label, sewn into each item, is seen as a badge of quality for the company's products.



The production staff are also responsible for the purchasing of raw materials and managing the supply chain. Within the factory there is a raw material store where the majority of the inventory is leather hides, but other items such as zip and buckles are also held there.

Mansako has worked with the same suppliers for a number of years and has built up a strong relationships with these suppliers.

All their suppliers must sign and adhere to Mansako's 'Code of Conduct for Suppliers'. The code sets out the minimum standards of ethical and responsible behaviour which must be met.

The Code of Conduct provides suppliers with guidelines in the following areas:

- a) Workplace health and safety
- b) Treatment of the work force, including the use of child labour, forced labour and discrimination
- c) Employee policies including fair remuneration and work conditions
- d) Animal welfare policies including product and material traceability
- e) Environmental protection policies.

Web page from www.mansako.com

How we make Mansako handbags



- The first step in the process is the product design. The product is designed using computer aided design software. Our designers decide how the final handbag will look and select the materials to be used in production. The final design sketch includes details of the front, back, bottom, straps, interior pockets, credit card slots, every chain, and every logo hook. From this sketch a pattern is produced for each individual piece of the bag.



- Once the design has been finalised, cutting dies are made out of wood with sharp metal ringed edges for each individual pattern piece. During the production stage, these cutting dies are laid on top of the leather hide and pressure applied to cut out the leather pieces. Utilising cutting dies removes the need for hand-cutting. However, it is still necessary to have a person skilled at hand-cutting to make our handbags which use the finest leather and other exotic materials.



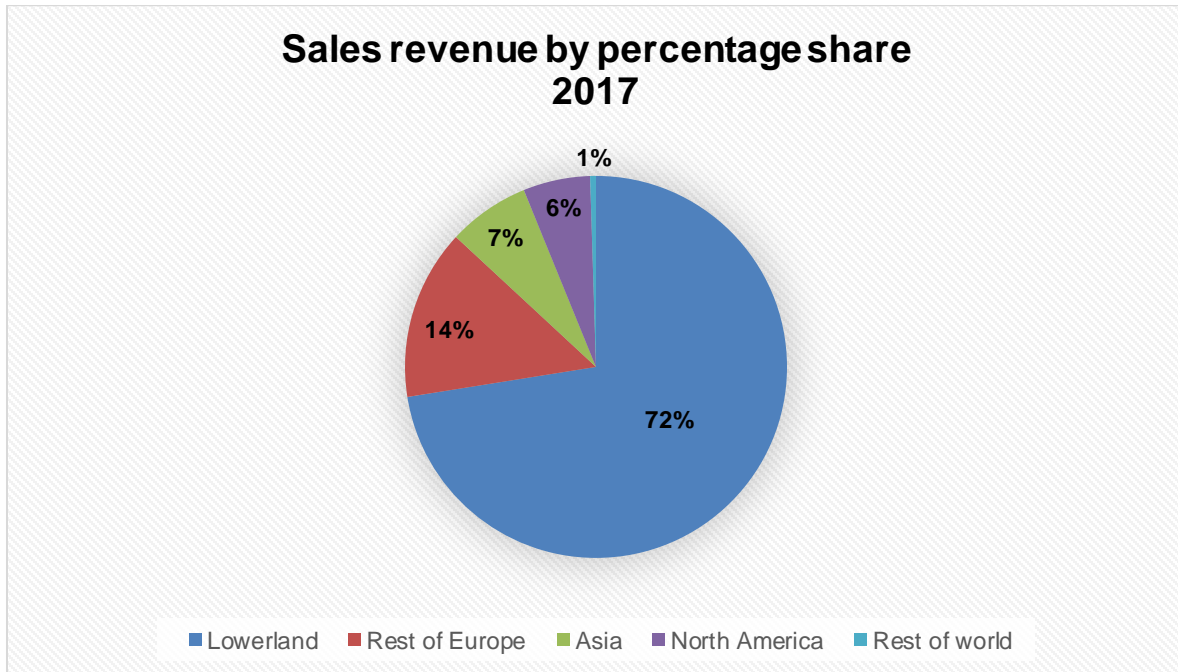
- Before the individual pieces are stitched together, the leather is 'skived'. The process of skiving is to reduce the thickness of the pieces that are to be sewn together. The lining is then glued on to the individual pieces to keep it flat against the leather whilst the pieces are double stitched together. This adds strength as well as allowing zip pockets and tablet or laptop sleeves to be added. Now each section is ready to be double stitched together. Most of our bags are stitched using sewing machines but in some cases hand stitching is required.



- Once the individual pieces are stitched together, the edges are trimmed and dyed. We now need to add the finishing touches. Zips, buckles, straps and other items (not forgetting the Golden M) are strongly riveted and double stitched to the product. Finally the product is checked to make sure it is perfect and given a coating of oil which helps protect and nourish the leather.

Selling and Marketing

Sales revenue for 2017 was L\$218.5 million with the majority of sales in Lowerland and the rest of Europe. Sales in Asia increased by 22% in 2017 and whilst this still represents a small percentage (7%) of total sales, Mansako predicts that the Asian market will provide significant future growth.



Mansako sells through three main channels: Mansako owned stores; internet sales and third party retail partners, who are mainly high-end department stores.

Mansako owned stores

At 31st December 2017, Mansako owned 119 stores, the vast majority of which are in Lowerland and the rest of Europe. Mansako owned stores are mainly located in city centre locations, high-end shopping malls and airport shopping areas. All of Mansako's owned stores are managed directly by the company.



Stores are fitted out to provide the appropriate ambience as befits the Mansako brand. Mansako recently began working with Universal Stores Design (USD) to develop a store design that 'reflects the core values of the Mansako brand'.

Store staff are highly trained, to ensure that they provide the excellent standard of customer service that is expected by Mansako's customers.

Mansako utilises an electronic point of sales (EPOS) system, which provides up to date information on sales and inventory in each store.

Store managers are set target sales revenue figures based on the size of the store and the number of staff.

Internet sales

Mansako has invested heavily in its website to offer online shopping to its worldwide customers. The website allows customers to view and order the full range of products on offer.

In the year ended 31 December 2017, Mansako achieved internet sales of L\$43 million, which represented 19.7% of total sales revenue. Mansako.com trades in seven currencies and ships to 190 countries from the distribution centre in Lowerland. However, Mansako's senior management team is aware of the need to expand its internet sales.

Digital selling and marketing has become an important part of the business and is expected to continue to increase in importance, both as a revenue channel and as a highly effective means of engaging with the company's customers. Mansako's digital business is managed in-house, utilising generic software.

In 2015, the company introduced its omni-channel strategy which includes in-store digital ordering, in-store collection of digital orders (Click & Collect) and in-store digital returns.

The home delivery service currently takes between 5 and 7 days. Whilst in-store collection is free, customers pay a low delivery charge for home delivery which reduces the net cost to Mansako.

		Customer delivery charge	Expected delivery
Lowerland	Standard home delivery	L\$6.00	5 days
Europe	Standard home delivery	L\$10.00	6 days
Rest of the world	Standard home delivery	L\$15.00	7 days
In-store collection	Click and collect	Free	5-7 days

The company will continue to strengthen its position in Europe and expand internationally through its omni-channel strategy, with well situated stores complemented by a strong digital presence. The penetration of omni-channel is expected to grow through continued enhancements of the offering.

In the short to medium term, the company plans to continue to refine and enhance the store network, while focusing upon improving the range of omni-channel services to match rapidly evolving customer buying behaviour.

Marketing

Mansako continues to invest in building the brand globally via a dynamic marketing and communication strategy, aiming to engage with new and loyal customers and enhancing the understanding of the brand in new and emerging markets. The company aims to engage with customers via an integrated marketing approach, coupling traditional events and press formats with extensive use of digital, mobile and social media marketing.

To reinforce its customer-centric business strategy and enhance the customer experience, the company continues to develop its Lowerland-based customer service operations. This includes planned further investment in aftercare and call centre operations supported by a recently implemented customer relationship management system.

Distribution

Mansako operates a single, company-owned, distribution centre which is based in Lowerland, approximately 10 miles from the Lowerland factory.

Mansako's logistics system records the movement of all products including inbound logistics to Mansako's distribution centre and outbound logistics to stores, third party retailers and internet customers.

Newly manufactured products are transferred to the distribution centre by road, using Mansako's own vehicles. This distribution centre was designed for a mainly store-based operation and has not received the same focus, or level of investment, as the rest of the business.

The distribution centre employs 95 staff who are split into four teams each assigned to the following four cost centres;

- Receiving and storage: unloading delivery vehicles and putting products into storage.
- Picking: manually gathering the correct product(s) for each order from storage.
- Packing: packaging orders ready for despatch.
- Despatch: loading delivery vehicles heading both to stores and for home delivery.



Most of the staff employed are low-skilled, however, a number of the supervisors and the management team are highly experienced and have worked at the distribution centre since it opened. Mansako employs permanent and temporary staff in the distribution centre. Following the introduction of home delivery, staff within both picking and packing were assigned to fulfil either store or home delivery orders.

Mansako's products are moved from the distribution centre by rail, sea, air freight and by road. Mansako operates its own road haulage trucks in Lowerland and some parts of Europe but works with a number of shipping partners to deliver products to stores and customers in other parts of Europe and the rest of the world.

Finance / Information Technology

Mansako has invested in the design and implementation of a range of integrated information systems. This includes linking electronic point of sales (EPOS) to the financial and logistics information systems. This provides up-to-the-minute sales and inventory data and links each store directly to the distribution centre.

The financial information system produces monthly management and annual statutory accounts. It also generates daily and weekly sales revenue and gross margin information for management to monitor actual results against budgets.

The finance department produces annual budgets using incremental budgeting. The company operates a standard absorption costing system.

WEB PAGE FROM WWW.MANSAKO.COM

Extract from Mansako's Corporate and Social Responsibility Policy

ENVIRONMENTAL POLICY

- **WE WILL FURBISH OUR PREMISES TO ENSURE HIGH ENERGY PERFORMANCE AND ENVIRONMENTAL SPECIFICATIONS AND, WHERE POSSIBLE, INVEST IN RENEWABLE ENERGY SOURCES.**
- **WE WILL SOURCE OUR PURCHASES FROM SUSTAINABLE OR RENEWABLE SOURCES WHEREVER POSSIBLE.**
- **WE WILL REVIEW OUR TRANSPORT POLICY TO MINIMISE OUR CARBON FOOTPRINT.**
- **WE WILL IMPROVE COMMUNICATION METHODS BETWEEN OURSELVES AND THIRD PARTIES TO REDUCE THE NEED FOR PRINTED DOCUMENTS AND TRAVEL BETWEEN SITES.**
- **WE WILL REDUCE THE AMOUNT OF CHEMICALS USED IN OUR PRODUCTION.**
- **WE WILL IMPROVE OUR PRODUCTION METHODS TO REDUCE WASTE.**
- **WE WILL RECYCLE AS MUCH WASTE AS POSSIBLE FROM ALL OF OUR SITES.**
- **WE WILL REDUCE THE AMOUNT OF PACKAGING USED FOR OUR PRODUCTS AND USE ENVIRONMENTALLY FRIENDLY PACKAGING WHEREVER POSSIBLE.**

ETHICAL POLICY

- **WE WILL ONLY WORK WITH PARTNERS WHO SHARE OUR ETHICAL VALUES AND HAVE SIGNED AN AGREEMENT TO THIS EFFECT.**
- **WE WILL USE FAIR TRADE ALTERNATIVES WHERE THESE ARE AVAILABLE AND SUITABLE FOR OUR BUSINESS NEEDS.**
- **WE WILL ENSURE THAT ALL EXOTIC MATERIALS ARE SOURCED WITH CITES* CERTIFICATION.**
- **WE WILL ENSURE THAT WE CAN COMPLETELY TRACK THE SOURCE OF ALL OUR HIDE PRODUCTS.**

*CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora) is an international agreement between governments. Its aim is to ensure that international trade in specimens of wild animals and plants does not threaten their survival.

THE GLOBAL PERSONAL LUXURY GOODS INDUSTRY

The global personal luxury goods market

The personal luxury goods market mainly encompasses five product sectors: cosmetics and fragrances; jewellery; watches; bag and accessories; clothes and shoes. The market for personal luxury goods fell by just under 1% (at constant exchange rate) in 2017, with worldwide sales revenue of US\$274 billion. This continuing trend of no or very low growth, represents a major shift in a market where companies had come to expect favourable market conditions and free-spending consumers. The UK's exit from the European Union and worldwide political instability have led to significant uncertainty in Europe and beyond. This has resulted in lower consumer confidence and hindered sales of personal luxury goods.

Sales of personal luxury goods, by the Top 100 largest luxury goods companies, in financial year 2017, exceeded US\$200 billion. 40 of the Top 100 had luxury goods sales of more than US\$1 billion. The threshold sales level to belong to the Top 100 in 2017 was US\$180 million with Mansako ranking 90th.

The bags and accessories sector

The bags and accessories sector accounted for 30% of the total personal luxury goods market, with a growth rate of 3% (at constant exchange rates) in 2017. This sector has grown the fastest since 2009 with a compound annual growth rate of 12% but growth over the past few years has slowed significantly.

Amongst the Top 100 players in the global personal luxury goods market there are 15 companies including Mansako whose sales revenue includes substantial sales from the bags and accessories sector of the market. These companies include the major French and Italian fashion houses, providing high-end luxury products and American designer brands providing more affordable luxury.

The 'affordable' or 'accessible' luxury segment of the market first emerged in 2014. This price category fills a void in the market, providing an entry-level luxury option for consumers who seek to trade up from mid-priced goods but are still either unable to afford to, or do not want to, pay the significantly higher prices that luxury commands. Millennials and Generation Z consumers present the strongest demand for this price category, seeking value for money whilst simultaneously seeking a higher quality of life.

Market trends

The Americas and Asia, two major luxury markets, both contracted by around 3% in 2017. Europe contracted by 1%, primarily due to a decline in tourism but offset by strong sales in the United Kingdom, driven by a weak British pound. In China, the market grew by 4% (at constant exchange rates) following three years of stagnation.

Sales by third party retailers represent the largest channel for personal luxury goods, accounting for two-thirds of all sales. The direct retail channel however is growing steadily as companies increasingly seek to control the experience they deliver to customers. Sales in the off-price channel (discount retail outlets) continued to grow by double digits in 2017 reaching 11% of the total personal luxury goods market. Overall, across all channels, discounted sales comprise 37% of the personal luxury goods market. It is clear that in the future, luxury brands need to become more disciplined and strategic in how they handle off-price sales.

Online sales also continued to grow rapidly, reaching an 8% share of the global market. This makes digital sales the third-largest market in the world for personal luxury goods, after the US and Japan. Luxury brands are behind in an increasingly digital world. New technology has changed the way that companies do business. Consumer buying behaviour is evolving with the emergence of a new customer segment - the 'millennials'. Millennials are the most digitally-influenced luxury consumers, with 42 per cent of their purchases made either by computer or via mobile devices, which are also becoming more popular with all generations. There is a constant need to innovate within the digital world where immediacy is key. This seems to contrast with the exclusivity which is at the heart of the luxury market.

Despite the rise in digital sales, 63% of luxury goods purchases still take place in a physical store, with luxury consumers in mature markets more likely than average to shop in store, and consumers in emerging markets more likely to shop on a mobile device.

The affordable luxury segment is gaining market share at the expense of the high-end luxury fashion houses. This segment is continuously offering new products that are competitively priced. Price positioning is crucial particularly in a market where digital channels provide consumers with constant information on product characteristics and price transparency.

Marketing and advertising represents a significant cost for the personal luxury goods market. Digital marketing is gaining share in the advertising budgets of companies and replacing traditional channels. Communication media is now so diverse that companies can only allocate budget for some of the channels.

Outlook for the future

The personal luxury goods market has settled into a new pattern characterised by slower growth. The market is expected to grow at 3% to 4% through 2018 to 2020, to approximately US\$300 billion (at constant exchange rates). The rising Chinese middle class should continue to spur growth in luxury goods purchases as will a recovery of consumer confidence in more mature markets.

Discounted sales will remain a sizeable component of the market but companies will need to handle them in a more strategic manner to reduce sales cannibalisation.

Digital sales will continue to grow at a higher rate than other market channels. A significant challenge for luxury goods companies is how to transition to a more digitally led distribution model while retaining the all-important element of quality. Omni-channel distribution will emerge as the dominant model in luxury retail, as it has already done in the mainstream retail market.

Travel and tourism still presents the greatest growth opportunity. Almost half of luxury purchases are made by consumers who are travelling, either in a foreign market (31 per cent) or while at the airport (16 per cent). This proportion rises to 60 per cent among consumers from emerging markets, who typically do not have access to the same range of products and brands that can be found in more mature markets.

Extract from Mansako's 2017 Financial Statements

Statement of Profit or Loss for the year ended 31 December	2017 L\$000	2016 L\$000
Revenue	218,557	202,627
Cost of sales	(83,530)	(77,090)
Gross Profit	135,027	125,537
Operating expenses	(126,049)	(119,859)
Other operating income	819	2,484
Operating profit	9,797	8,162
Finance costs	(4)	(81)
Profit before tax	9,793	8,081
Taxation	(3,306)	(4,592)
Profit / (loss) for the year	6,487	3,489

**Statement of Financial Position
as at 31 December**

	2017 L\$000	2016 L\$000
<u>Non-current assets</u>		
Intangible assets*	3,682	4,839
Tangible assets	41,778	46,162
	45,460	51,001
<u>Current assets</u>		
Inventories	55,669	57,691
Trade receivables	19,070	13,997
Cash and cash equivalents	24,183	18,218
	98,922	89,906
<u>Total Assets</u>	144,382	140,907
<u>Equity and Liabilities</u>		
Share capital	3,900	3,900
Share premium	15,550	15,550
Retained earnings	86,442	82,267
Total equity	105,892	101,717
<u>Non-current liabilities</u>	0	0
<u>Current liabilities</u>		
Trade payables	36,856	36,146
Current tax liabilities	1,634	3,044
	38,490	39,190
<u>Total Equity and Liabilities</u>	144,382	140,907

*Intangible assets consist of computer software costs. Mansako's accounting policy is to treat software costs as intangible assets.

**Statement of Cash Flows
for the year ended 31 December**

	2017 L\$000	2016 L\$000
Cash flows from operating activities		
Profit / (loss) before tax	9,793	8,081
Amortisation/Impairment of intangible assets	2,408	2,526
Depreciation / Impairment of tangible assets	11,392	10,945
(Profit) / loss on sale of tangible assets	423	(1,711)
Net finance costs	4	81
(Increase) / decrease in inventory	2,022	(6,499)
(Increase) / decrease in trade and other receivables	(5,073)	3,241
Increase / (decrease) in trade and other payables	710	(1,206)
Cash generated from operations	21,679	15,458
Interest paid	(22)	(86)
Tax paid	(4,716)	(4,761)
Net cash generated from operating activities	16,941	10,611
Cash flows from investing activities		
Interest received	18	5
Purchase of intangible assets	(1,251)	(1,112)
Purchase of tangible assets	(7,483)	(7,644)
Proceeds from disposal of tangible assets	52	5,798
Net cash used in investing activities	(8,664)	(2,953)
Cash flows from financing activities		
Dividend paid	(2,312)	(2,312)
Net cash from / (used in) financing activities	(2,312)	(2,312)
Net increase / (decrease) in cash and cash equivalents	5,965	5,346
Cash and cash equivalents at beginning of the year	18,218	12,872
Cash and cash equivalents at the end of the year	24,183	18,218

TAX REGIME IN LOWERLAND

Corporate Profits:

- The corporate tax rate applicable to taxable profits is 20%.
- 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,
 - entertaining expenditure,
 - donations to political parties and
 - Taxes paid to other public bodies.
- Tax depreciation allowances are available on items of plant and machinery (including vehicles used for business purposes) at a rate of 25% per year on a reducing balance basis.
- Tax losses can be carried forward to offset against future taxable profits from the same business.

BUDGET INFORMATION 2018

Sales Budget 2018								
	Shoulder bags				Totes			
	Small	Medium	Large	Total	Small	Medium	Large	Total
Average selling price (L\$)	845	1,300	1,560	1,259	1,040	1,430	1,690	1,408
Quantity	26,500	19,080	33,920	79,500	21,200	15,900	26,500	63,600
Total sales (L\$000)	22,393	24,804	52,915	100,112	22,048	22,737	44,785	89,570

Sales Budget 2018								
	Clutches / Crossbody			Accessories				
	Small	Medium	Total	Purses	*Techno	Pouch	Organisers	Total
Average selling price (L\$)	650	1,170	886	325	260	260	325	285
Quantity	12,720	10,600	23,320	21,200	37,100	9,540	8,480	76,320
Total sales (L\$000)	8,268	12,402	20,670	6,890	9,646	2,480	2,756	21,772

*Techno = Technology i.e. tablet cases and mobile phone cases

Budgeted Contribution / Gross Profit 2018

	Shoulder Bags			Totes		
	Small	Medium	Large	Small	Medium	Large
	L\$	L\$	L\$	L\$	L\$	L\$
Average selling price	845	1,300	1,560	1,040	1,430	1,690
Direct material cost	(80)	(100)	(140)	(83)	(105)	(146)
Direct labour cost	(112)	(140)	(196)	(116)	(147)	(204)
Variable production overheads	(39)	(49)	(69)	(41)	(51)	(71)
Contribution	614	1,011	1,155	800	1,127	1,269
Fixed production overheads	(118)	(147)	(206)	(122)	(154)	(215)
Gross profit	496	864	949	678	973	1,054
Contribution / sales ratio (%)	72.7%	77.8%	74.0%	76.9%	78.8%	75.1%
Gross profit margin (%)	58.7%	66.5%	60.8%	65.2%	68.0%	62.4%

Budgeted Contribution / Gross Profit 2018

	Clutches / Crossbody		Accessories			
	Small	Medium	Purses	Technology	Pouches	Organisers
	L\$	L\$	L\$	L\$	L\$	L\$
Average selling price	650	1,170	325	260	260	325
Direct material cost	(75)	(90)	(40)	(35)	(30)	(35)
Direct labour cost	(105)	(126)	(56)	(49)	(42)	(49)
Variable production overheads	(37)	(44)	(20)	(17)	(15)	(17)
Contribution	433	910	209	159	173	224
Fixed production overheads	(110)	(132)	(59)	(51)	(44)	(51)
Gross profit	323	778	150	108	129	173
Contribution / sales ratio (%)	66.6%	77.8%	64.3%	61.2%	66.5%	68.9%
Gross profit margin (%)	49.7%	66.5%	46.2%	41.5%	49.6%	53.2%

Key Statistics - Budget 2018

	Shoulder bags	Totes	Clutches / Crossbody	Accessories	Total
Total sales revenue (L\$000)	100,112	89,570	20,670	21,772	232,124
Total quantity	79,500	63,600	23,320	76,320	242,740
Product Range Averages					
	Shoulder bags	Totes	Clutches / Crossbody	Accessories	Overall average
Selling price (L\$)	1,259	1,408	886	285	956
Contribution (L\$)	940	1,077	650	182	710
Contribution / sales ratio	74.7%	76.5%	73.4%	63.9%	74.3%
Gross profit (L\$)	778	908	530	129	584
Gross profit margin	61.8%	64.5%	59.8%	45.3%	61.1%

Are designer handbags losing their lustre?

Johnny Palermo - Business Correspondent

Luxury handbag brands are battling slowing demand and markdowns in stores, which may have diverted their attention from what could make them successful in the long run: creativity and innovation.

Many of the major brands have responded to the slowdown in demand by reducing the number of styles introduced, amid fears about being left with too much merchandise. This lack of innovation however is going to make it difficult to recapture the excitement of shoppers.

Deciding on the right number of new styles is difficult. Brands need to strike a balance between creating a glut of inventory or “dead stock”, while ensuring there’s enough innovative new merchandise to entice consumers.

Handbag makers have previously relied on innovative features to attract shoppers but with fewer designs on store shelves, there’s less opportunity to hit on a new hot trend.



This slowdown in demand has come at the same time as consumers are demanding faster availability of the new styles.

This has forced retailers to rely on discounting to move merchandise and with the increasing presence of outlets — which can ultimately be brand killers — the situation is gloomy. Outlets ultimately devalue a brand, encourage consumers not to buy at full price, and make luxury items too accessible. And consumers have now been trained to expect markdowns.

The slowdown in sales growth has prompted a number of companies to diversify into other product areas such as menswear or home goods.

So, is the reign of the designer handbag over? That remains to be seen.