



REPORT OF WIRRAL AND DEFOE

Contemporary Issues in Performance Management



APRIL 25, 2024

UNIVERSITY OF WALES TRINITY SAINT DAVID

Executive Summary

This report is structured into two distinct sections, with the first part comprising a case study of Wirral Fabrication plc, and the second part focusing on DEFOE.

This report examines Wirral's strategic initiatives to enhance operational efficiency and performance management. Wirral Fabrication plc serves as a leading manufacturer of automotive polishing machines utilized within machinery warehouses and workshops. The company operates through two primary divisions: manufacturing/sales (M/S) and services. The initial chapter of this report undertakes a critical evaluation of Wirral's divisional performance, employing metrics such as Return on Investment (ROI), residual income, and Economic Value Added (EVA).

Subsequently, the report delves into the intricacies of Wirral's £10 million internal tolling agreement, elucidating how the agreement's structure incorporates two distinct methods for calculating transfer prices between the services and M/S divisions: the market price method and the cost-plus method. Analysis of transfer pricing strategies highlights opportunities for cost optimization. Consideration of outsourcing warranty service work presents potential benefits in cost-effectiveness and resource allocation.

Furthermore, the Board is contemplating the adoption of a novel system predicated on an integrated, single database accessible across all five of the company's locations. This proposed corporate network enhancement aims to facilitate real-time input and updating of the database, which in turn will support the implementation of a comprehensive management information system alongside an advanced executive information system.

The third part of the report evaluates the implementation of a new Executive Information System (EIS) aims to streamline decision-making processes. Recommendations include conducting a thorough cost-benefit analysis for outsourcing and careful planning for EIS implementation. By leveraging these insights, Wirral can drive sustainable growth and deliver value to stakeholders.

Defoe is a footwear brand owned by Defoe Shoes Ltd., a private limited company. Founded by Ms. Jocelyn Jones in the Tower Hamlets area of London in 2010, shortly after the global financial crisis, the company has established itself as a mid-sized footwear designer and retailer. Catering primarily to upper-middle-class customers, Defoe offers a range of shoes, sandals, boots, and accessories. Since 2015, the European Union has enforced a ban on imports from the Republic of Uzbekistan in Asia, necessitating Defoe to seek alternative sources for raw materials. This decision significantly impacted the company's gross profit. Furthermore, the onset of 2018 brought about challenges such as a notable decline in orders due to the combined effects of Brexit and the Covid-19 pandemic. Compounded by the depreciation of the pound sterling against the euro, this further exacerbated the strain on reported annual sales. In light of these macroeconomic factors, this report will focus on analyzing the growth crisis precipitated by these events, utilizing financial statements and other pertinent information for performance evaluation.

Descartes Shoes finds itself at a pivotal juncture, contemplating several expansion strategies. Options under consideration include revising its pricing policy, diversifying into segments occupied by competitors or into entirely new industries, and exploring the possibility of establishing a joint venture to expand its retail division, particularly in the realms of fashion retailing, encompassing handbags, wallets, perfumes, and cosmetics. This report will delve into the necessity and implementation of business process re-engineering to address these potential avenues for growth.

Table of Contents

Executive Summary	1
Introduction	3
Task 1 – WIRRAL FABRICATION PLC.....	4
1 Divisional performance at Wirral	4
1.1 The current divisional performance measure (ROI)	4
1.2 Other measures of divisional performance (RI and EVATM)	4
2 Designing a transfer pricing system	5
2.1 Market Price Method	5
2.2 Cost Plus Method	6
2.3 Outsourcing Warranty Service	7
3 Introduction of the new executive information system	7
4 Conclusion	8
Task 2 – DEFOE FOOTWEAR BRAND	10
Introduction	10
1 The growth crisis	10
1.1 Raw Material Sourcing	10
1.2 Expansion into Retail Segment	10
1.3 Sales and Distribution Challenges	11
2 Quantitative and qualitative performance	12
2.1 Financial Perspective.....	12
2.2Customer Perspective	13
2.3Internal Processes Perspective	13
2.4. Learning & Growth Perspective	14
2.5 Recommendations Based on Balanced Scorecard Analysis:.....	14
3 The need for business process reengineering	14
3.1 Future Expansion Plans	14
3.2 Supply Chain Optimization.....	15
3.3Working Capital Management	15
3.4 Retail Expansion	15
3.5 Partnership Opportunities	15
3.6 Competitive Landscape	15
4 Conclusion	15
Bibliography	17
Appendix	19

Introduction

In today's rapidly evolving business landscape, companies like Wirral are continually seeking ways to enhance their operational efficiency, optimize decision-making processes, and drive sustainable growth. As part of Wirral's commitment to innovation and performance excellence, this report explores the potential impacts of several strategic initiatives aimed at improving various aspects of the company's operations and management practices.

The report begins by analyzing Wirral's current approach to transfer pricing within its service division, focusing on both warranty and out-of-warranty repairs. Through an examination of market price and cost plus methods, the report evaluates alternative pricing strategies and their implications for profitability and competitiveness.

Furthermore, the report delves into the possibility of outsourcing warranty service work and its potential ramifications on cost-effectiveness, service quality, and strategic alignment. By weighing the pros and cons of outsourcing against in-house capabilities, Wirral can make informed decisions regarding its service division's operational model and resource allocation.

Additionally, the report discusses Wirral's consideration of implementing a new executive information system (EIS) to enhance performance management and decision-making processes. Through the integration of data from multiple functional areas into a single, accessible database, the EIS aims to provide executives with real-time insights, streamline reporting processes, and facilitate strategic planning initiatives.

Overall, this report serves as a comprehensive analysis of Wirral's strategic initiatives, offering insights into potential opportunities, challenges, and recommendations for driving operational excellence and achieving sustainable growth in an increasingly competitive market environment. By leveraging the findings and recommendations presented herein, Wirral can position itself for success and continue to deliver value to its stakeholders in the years to come.

Task 1 – WIRRAL FABRICATION PLC

1 Divisional performance at Wirral

Analyzing Wirral's departmental performance based on the calculations we've done provides valuable insights into the financial performance of its divisions. Let's break down the analysis and then discuss the advantages and disadvantages of the three departmental performance measures: ROI, RI, and EVA.

1.1 The current divisional performance measure (ROI)

Return on Investment (ROI)

$$\mathbf{ROI} = \frac{\text{Profit before tax}}{\text{Initial Investment}} \times 100\%$$

So the ROI is calculated as:

$$\mathbf{ROI\ M/S} = \frac{301}{1294} \times 100\% \approx 23.26\%$$

$$\mathbf{ROI\ Service} = \frac{5}{38} \times 100\% \approx 13.16\%$$

The Return on Investment (ROI) for the M/S Department is approximately 23.26%. This indicates that for every £1 of capital invested in the M/S Department, Wirral earns a return of about 23.26 pence.

The Return on Investment (ROI) for the Service Department is approximately 13.16%. This indicates a lower return compared to the M/S Department, suggesting potentially less efficient use of capital.

1.2 Other measures of divisional performance (RI and EVATM)

Residual Income (RI):

$$\mathbf{RI} = \text{Operating Profit} - (\text{Capital Employed} \times \text{Cost of Capital})$$

M/S and Service Department:

$$\mathbf{RI} = 396\text{million} - (1294\text{million} \times 0.09) \approx 396\text{million} - 116.46\text{million} \approx 279.54\text{million}$$

$$\mathbf{RI} = 6\text{million} - (38\text{million} \times 0.09) \approx 6\text{million} - 3.42\text{million} \approx 2.58\text{million}$$

The Residual Income (RI) for the M/S Department is approximately £279.54 million. This reflects the operating profit of the M/S Department after accounting for the cost of capital. The Residual Income (RI) for the Service Department is approximately £2.58 million. This reflects the operating profit of the Service Department after accounting for the cost of capital.

Economic Value Added (EVA):

$$\mathbf{EVA} = \text{NOPAT} - (\text{Capital Employed} \times \text{Cost of Capital})$$

$$\text{Net Operating Profit After Taxes (NOPAT)} := \text{Operating Profit} - \text{Tax}$$

$$\mathbf{NOPAT\ M/S} = 396\text{million} \times (1 - 30\%) \approx 277.2\text{million}$$

$$\mathbf{NOPAT\ Service} = 6\text{million} \times (1 - 30\%) = 4.2\text{million}$$

M/S and Service Department:

$$\text{EVA} = 277.2\text{million} - (1294\text{million} \times 0.09) \approx 277.2\text{million} - 116.46\text{million} \approx 160.74\text{million}$$

$$\text{EVA} = 4.2\text{million} - (38\text{million} \times 0.09) = 4.2\text{million} - 3.42\text{million} = 0.78\text{million}$$

The Economic Value Added (EVA) for the M/S Department is approximately £160.74million. This measures the net operating profit after deducting the cost of capital. The Economic Value Added (EVA) for the Service Department is approximately £0.78million. EVA indicates that the Service Department is not generating sufficient economic value and may not be covering its cost of capital.

The choice of performance measure depends on the specific goals and characteristics of the organization. For Wirral, considering its size and complexity, a combination of measures might be beneficial:

ROI can provide a quick overview of profitability and efficiency for each department.

RI can be used to assess whether each department is generating profits above the cost of capital, encouraging managers to focus on value creation.

EVA can provide a more comprehensive measure of economic profit, taking into account the opportunity cost of capital and aligning with shareholder wealth maximization.

Ultimately, the selection of performance measures should be tailored to the organization's objectives, resources, and strategic priorities. Regular monitoring and evaluation of departmental performance using a combination of measures can provide valuable insights for decision-making and performance improvement.

2 Designing a transfer pricing system

Wirral is structured into two divisions: manufacturing/sales (i.e. M/S) and service. Transfer pricing is the setting of prices for goods and services sold between related entities within an enterprise. It's crucial for corporations to determine fair transfer prices to ensure accurate allocation of profits among divisions and compliance with tax regulations.

Market Price Approach: Also known as the "comparable uncontrolled price" method, this approach sets transfer prices based on prices charged for similar goods or services in transactions between unrelated parties. The idea is to mimic the market conditions as closely as possible. This approach relies on external market data to establish a fair transfer price. It's often considered the most reliable method for determining transfer prices because it's based on actual market transactions.

Cost Plus Approach: In this approach, the transfer price is determined by adding a markup (or profit margin) to the cost incurred by the selling division. The markup typically represents the desired profit margin of the selling division. The advantage of this method is its simplicity and ease of application. However, it may not always reflect the true market value of the goods or services being transferred, especially if the selling division's costs are not reflective of market conditions.

2.1 Market Price Method

The market price is based on prices charged for similar repairs in transactions between unrelated parties.

Since we don't have direct market data for similar repairs, let's assume we can find market prices for repairs in the industry. Let's say the average market price for similar repairs is £350.

Transfer Price (Market Price) = Average Market Price for Repairs=£350 per repair

2.2 Cost Plus Method

The cost plus method involves adding a markup to the cost of production to determine the transfer price. Let's say we want to apply a markup of 20% to cover profit and other expenses. We can get the following data from the case description:

1.Revenue from Warranty Repairs:

Annual fee generated from warranty repairs: £10 million

Number of units sold per year: 580,000

Percentage of units needing repair within warranty: 6%

Number of units needing repair within warranty: $580,000 \times 6\% = 34,800$ units

Revenue per repair: $\text{£10 million} / 34,800 = \text{£287.36}$ per repair

2.Cost of Parts for Repairs:

Average cost of parts per repair: £95

3.Labour and Overhead Costs for Out-of-Warranty Repairs:

Labour cost per hour: £18

Variable divisional overhead per hour: £11

Fixed divisional overhead per hour: £24

4.Time Required for Repairs:

Time required for a repair: 4 hours

Now, let's calculate the costs and profits for out-of-warranty repairs:

Labour Cost per Repair: $\text{Labour cost per repair} = \text{Labour cost per hour} \times \text{Time required for repair} = \text{£18} \times 4 = \text{£72}$

Variable Divisional Overhead Cost per Repair: $\text{Variable overhead cost per repair} = \text{Variable overhead cost per hour} \times \text{Time required for repair} = \text{£11} \times 4 = \text{£44}$

Fixed Divisional Overhead Cost per Repair: $\text{Fixed overhead cost per repair} = \text{Fixed overhead cost per hour} \times \text{Time required for repair} = \text{£24} \times 4 = \text{£96}$

Total Cost per Repair:

$\text{Total cost per repair} = \text{Labour Cost} + \text{Variable Overhead Cost} + \text{Fixed Overhead Cost} + \text{Cost of Parts} = \text{£72} + \text{£44} + \text{£96} + \text{£95} = \text{£307}$ per repair

$\text{Transfer Price (Cost Plus)} = \text{Cost of Production} + (\text{Cost of Production} \times \text{Markup Percentage})$

$\text{Transfer Price (Cost Plus)} = \text{£307} + (\text{£307} \times 20\%) = \text{£368.40}$ per repair

These transfer prices can be used to determine the pricing strategy for warranty repairs within the company's service division. The choice between the two methods may depend on factors such as market conditions, profitability goals, and compliance with tax regulations.

2.3 Outsourcing Warranty Service

Since the service division plans to outsource all warranty service repairs at a fixed price of £1800 per repair, we'll use this price directly as the transfer price for warranty service repairs.

Transfer Price (Outsourcing Warranty Service) = £1800 per repair

Outsourcing the warranty service work could be a viable option for the service division, but several factors need consideration before making a decision:

Cost-effectiveness: While the quoted price of £1800 per warranty service repair from the local engineering firm might seem high compared to the transfer price derived from the market price method, it's essential to consider the total cost of providing the warranty service internally. This includes labor, overhead, parts, and any additional costs associated with maintaining the capability to handle warranty repairs.

Quality and reliability: The service division should evaluate the quality and reliability of the outsourced warranty service compared to in-house service. It's crucial to ensure that the outsourced provider can meet the required standards and maintain customer satisfaction levels.

Capacity and capability: Assess whether the service division has the capacity and capability to handle other revenue-generating opportunities, such as pursuing new engineering projects, if it outsources the warranty service work. Outsourcing may free up resources and allow the division to focus on expanding its business in other areas.

Contract terms: Negotiate contract terms with the outsourcing partner carefully to ensure favorable terms, such as service level agreements, pricing stability, and flexibility to adjust the scope of work if needed.

Strategic alignment: Evaluate how outsourcing the warranty service aligns with the overall strategic objectives of the service division and the company as a whole. Consider whether it supports long-term growth, efficiency, and profitability goals.

3 Introduction of the new executive information system

Introducing a new executive information system (EIS) at Wirral could have several potential impacts on performance management within the company. Here are some key considerations:

Improved Decision-Making: An EIS provides high-level executives with access to timely, relevant, and summarized information from various functional areas of the company. This can lead to better-informed decision-making, as executives have a comprehensive view of the company's performance metrics, financial data, and key performance indicators (KPIs). With real-time access to critical information, executives can quickly identify trends, opportunities, and potential risks, allowing for proactive decision-making.

Enhanced Strategic Planning: The availability of comprehensive data and analytics through the EIS can support strategic planning initiatives within the company. Executives can use the system to assess the impact of strategic decisions, track progress towards goals, and adjust strategies as needed. By aligning strategic objectives with performance metrics, the EIS facilitates strategic planning processes and helps ensure that organizational goals are effectively communicated and monitored.

Increased Accountability and Transparency: With greater visibility into performance metrics and KPIs across the organization, the EIS promotes accountability among executives and departmental

managers. Clear performance targets and benchmarks can be established within the system, allowing for objective evaluation of performance against goals. This transparency fosters a culture of accountability and encourages employees to take ownership of their performance and contributions to organizational objectives.

Streamlined Reporting Processes: The EIS consolidates data from disparate sources into a single, integrated database, eliminating the need for manual data collection and reporting processes. This streamlines the reporting process and reduces the time and effort required to generate performance reports. Executives can access standardized reports and dashboards through the EIS, facilitating efficient communication of performance insights and eliminating silos between functional areas.

Facilitated Performance Monitoring and Evaluation: The EIS provides executives with tools for monitoring and evaluating performance in real-time. Key performance indicators can be tracked continuously, enabling early detection of performance issues and deviations from targets. Executives can drill down into detailed performance data to identify root causes of problems and take corrective actions promptly. This proactive approach to performance management helps ensure that organizational objectives are achieved efficiently and effectively.

Overall, the introduction of a new executive information system at Wirral has the potential to significantly enhance performance management processes by providing executives with access to timely, relevant, and comprehensive performance data. By leveraging the capabilities of the EIS, executives can make informed decisions, drive strategic initiatives, and monitor performance effectively to achieve organizational goals.

4 Conclusion

Based on the analysis conducted on Wirral's divisional performance, along with the examination of the design of a transfer pricing system and the potential introduction of a new executive information system (EIS), several significant insights emerge.

Firstly, the assessment of divisional performance through measures such as ROI, RI, and EVA offers valuable perspectives on the financial health and efficiency of Wirral's divisions. Through these metrics, managers can better understand the strengths and weaknesses of each division, enabling informed decision-making to enhance overall organizational performance.

Secondly, the establishment of a fair and transparent transfer pricing system is imperative for Wirral's operations. By ensuring that prices for goods and services exchanged between divisions accurately reflect their market value, Wirral can optimize resource allocation, foster collaboration between divisions, and mitigate potential conflicts of interest. Moreover, adherence to transfer pricing regulations is essential to avoid legal and financial repercussions.

Lastly, the potential implementation of a new executive information system (EIS) presents both opportunities and challenges for Wirral. While an EIS can streamline data collection, analysis, and reporting processes, enhancing managerial decision-making and strategic planning, its successful integration requires careful planning, investment, and organizational change management. Additionally, considerations such as data security, user training, and system compatibility must be addressed to maximize the benefits of the EIS implementation.

In conclusion, the comprehensive analysis of divisional performance, the design of a transfer pricing system, and the potential introduction of an executive information system underscore the importance of effective performance management and strategic decision-making at Wirral. By

leveraging these insights and addressing associated challenges, Wirral can position itself for sustainable growth, competitive advantage, and long-term success in its industry.

Task 2 – DEFOE FOOTWEAR BRAND

Introduction

In the dynamic landscape of the footwear industry, companies must navigate a myriad of challenges and opportunities to sustain growth and remain competitive. Defoe Footwear Limited, a prominent player in the industry, has encountered a growth crisis stemming from shifts in raw material sourcing, changes in market dynamics, and external factors such as Brexit and the Covid-19 pandemic. To address these challenges and unlock new avenues for growth, it is imperative for Defoe Footwear Limited to conduct a comprehensive analysis of its quantitative and qualitative performance across key dimensions.

This report aims to provide a thorough examination of Defoe Footwear Limited's performance using the Balanced Scorecard methodology. By evaluating the company's financial, customer, internal processes, and learning & growth perspectives, we will uncover insights into its current strengths, weaknesses, opportunities, and threats. Furthermore, we will propose strategic recommendations tailored to address the identified areas of improvement and capitalize on emerging opportunities.

Through this analysis, Defoe Footwear Limited will gain valuable insights to inform strategic decision-making, enhance operational efficiency, and position itself for sustainable growth in the ever-evolving footwear market. Let us embark on this journey to uncover the pathways to success for Defoe Footwear Limited.

1 The growth crisis

Based on the information provided in Part2, Defoe Footwear Limited is facing multiple challenges that have impacted its growth and profitability.

1.1 Raw Material Sourcing

The ban on sourcing cotton from Uzbekistan has led to a significant increase in raw material costs. The company's average gross profit ratio, which was 80% between 2010 and 2015, has been reduced due to higher raw material costs.

The Resource-Based View (RBV) is a theoretical framework in strategic management that emphasizes the importance of a firm's internal resources and capabilities in achieving sustainable competitive advantage. According to RBV, resources are the inputs a firm uses to carry out its activities, while capabilities refer to the firm's ability to deploy its resources effectively to create value. Key aspects of the RBV include: Resource Heterogeneity, Resource Immobility, Resource Value and Dynamic Capabilities. According to the Resource Based View (RBV) theory:

Diversify Suppliers: Diversifying suppliers will enhance the company's resource base and reduce dependency on a single source, thereby increasing resilience and competitive advantage.

Sustainable Sourcing: Emphasizing sustainable and ethical sourcing can be a unique resource that sets the company apart from competitors, attracting environmentally conscious consumers.

1.2 Expansion into Retail Segment

While the retail segment trading in socks and tights has been relatively successful, the company has not explored other potential retail avenues like perfumes and cosmetics. The company is missing out on potential revenue streams and diversification.

The Ansoff Matrix, also known as the **Product-Market Expansion Grid**, is a strategic tool used by businesses to analyze and plan their growth strategies. It was developed by Igor Ansoff in 1957 and remains a widely used framework in strategic management. The matrix helps companies consider different options for growth by evaluating both their existing and potential product offerings and target markets. The Ansoff Matrix consists of four growth strategies: market penetration, market development, product development, and diversification.

Market Penetration: Defoe Footwear Limited has already penetrated its existing market by launching a retail segment for socks and tights. This move has been relatively successful, as evidenced by the segment generating 15% of total sales in 2019 and projected to increase to 20% by 2022. Since the company's primary customers are based in London and continental Europe, further market penetration strategies could focus on increasing sales to these existing customer bases through targeted marketing campaigns, promotions, or enhanced customer experiences in-store and online.

Market Development: Given that Defoe Footwear Limited already serves customers in London and continental Europe, there is potential for market development by targeting new geographic regions or customer segments within these markets. For example, the company could explore expanding its customer base in continental Europe beyond Germany, Netherlands, and France to other countries in the region. Additionally, the company could consider reaching out to new customer segments within its existing markets, such as expanding its offerings to appeal to younger demographics or introducing new product lines to cater to different customer preferences.

Product Development: While Defoe Footwear Limited has diversified its product offerings with the introduction of socks and tights, there is potential for further product development within the footwear and fashion industry. The company could explore expanding its product lines to include complementary items such as perfumes and cosmetics, aligning with the offerings of other operators in the industry. This would allow the company to leverage its existing customer base and distribution channels while diversifying its revenue streams and capturing additional market share.

Diversification: Currently, Defoe Footwear Limited's diversification efforts have been limited to launching a retail segment for socks and tights within its existing industry. However, the company could consider further diversification by exploring opportunities in unrelated industries or markets. For example, the company could explore partnerships or acquisitions in adjacent industries such as accessories or apparel, or it could diversify into entirely new markets outside of fashion and footwear, such as home goods or technology products.

1.3 Sales and Distribution Challenges

Most of the customers are based in London and continental Europe. The effects of Brexit and the Covid-19 pandemic have led to a significant decrease in orders. Additionally, the depreciation of the pound sterling against the euro has negatively impacted reported annual sales. Reduced sales and revenue due to external factors affecting demand and currency valuation.

This part can be analysed using PESTLE theory. PESTLE Analysis helps to identify and analyze the macro-environmental factors that impact an organization.

(1) Political Factors:

Brexit: The decision of the United Kingdom to leave the European Union (Brexit) has political implications for Defoe Footwear Limited. Changes in trade agreements, tariffs, and regulations could affect the company's operations, particularly regarding imports and exports to and from EU countries.

(2)Economic Factors:

Currency Fluctuations: The depreciation of the British pound sterling against the euro due to Brexit has economic implications for Defoe Footwear Limited. This affects the company's financial performance, as it impacts the reported annual sales when converting euro-denominated revenues back into pounds.

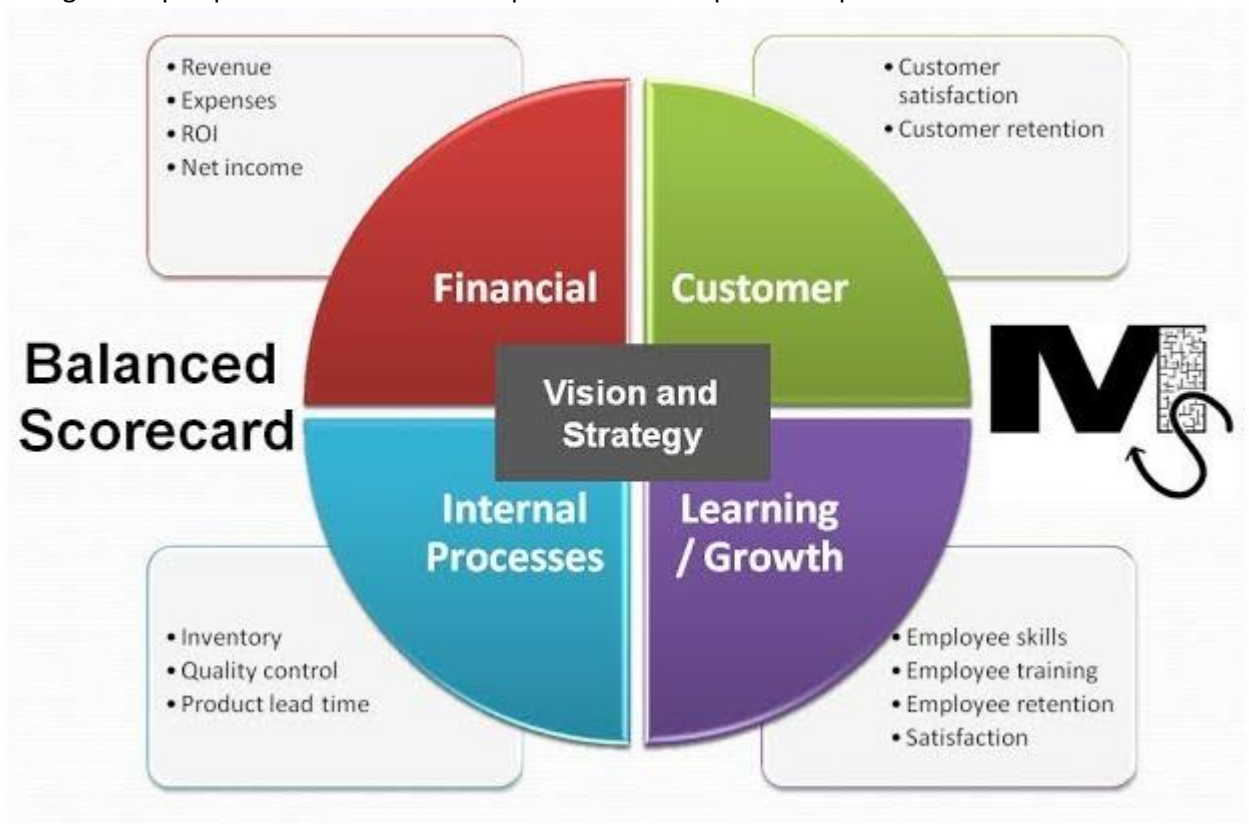
Covid-19 Pandemic: The ongoing Covid-19 pandemic has had significant economic repercussions, leading to a decrease in consumer spending and a downturn in orders for the company. This economic uncertainty may continue to impact sales and profitability in the foreseeable future.

(3)Social Factors:

Consumer Behavior: Changes in consumer preferences and behaviors, influenced by factors such as fashion trends, lifestyle choices, and purchasing habits, can impact Defoe Footwear Limited's sales and product demand. Understanding and adapting to these social trends are crucial for maintaining competitiveness in the fashion industry.

2 Quantitative and qualitative performance

The Balanced Scorecard is a strategic planning and management framework used to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organizational performance against strategic goals. It typically includes four perspectives: Financial, Customer, Internal Process, and Learning & Growth. Let's go through each perspective and assess both quantitative and qualitative performance.



2.1 Financial Perspective

Profitability Ratios:

As can be seen from the appendix: Turnover has decreased from £1,750,000 in 2020 to a projected £600,000 in 2022. Gross profit has decreased from £820,000 in 2020 to a projected £320,000 loss in 2022. Profit before tax has decreased from £372,000 in 2020 to a projected £175,000 loss in 2022.

Gross Profit Margin = (Gross Profit / Turnover) * 100%

	2019	2020	2021	2022
Gross Profit	700,000	820,000	600,000	320,000
Turnover	1,400,000	1,750,000	1,455,000	600,000
Gross Profit Margin	50.00%	46.86%	41.24%	53.33%

Return on Equity (ROE) = (Profit after Tax / Shareholders' Funds) * 100%

	2019	2020	2021	2022
Profit after Tax	243	301	86	-160
Turnover	845	975	985	825
Shareholders' Funds	28.76%	30.87%	8.73%	-19.39%

Return on Investment (ROI):

$$\text{ROI} = \frac{\text{Profit before tax}}{\text{Initial Investment}} \times 100\%$$

	2019	2020	2021	2022
Profit before tax	300,000	372,000	105,000	-175,000
NET ASSETS	845,000	975,000	985,000	825,000
ROI	35.50%	38.15%	10.66%	-21.21%

2.2 Customer Perspective

(1) Customer Satisfaction and Loyalty: Customer satisfaction has improved from 69% in 2019 to 82% in 2021. Ratio of sales to website hits has increased from 10% in 2019 to 18% in 2021. While customer satisfaction levels have improved over the years, there may still be opportunities to further enhance the customer experience and address any areas of dissatisfaction.

(2) Sales Performance and Customer Retention: The decrease in turnover from 2021 to the projected figures for 2022 is alarming and requires analysis to identify the root causes, such as changes in market demand, competitive pressures, or operational issues. The improvement in the ratio of sales to website hits suggests enhanced effectiveness in converting website visitors into customers, which is a positive indicator. Defoe need to improve sales conversion rates and expand market share in existing and new product categories.

2.3 Internal Processes Perspective

(1) Inventory Management: Cost of sales has decreased from £930,000 in 2020 to a projected £280,000 in 2022, indicating potential improvements in supply chain and inventory management.

(2) Process Efficiency: Average job completion time has decreased from 14 days in 2019 to 7 days in 2021, indicating improvements in operational efficiency.

(3) Quality Control: Error rate in jobs done has improved significantly from 11% in 2019 to 4% in 2021.

2.4. Learning & Growth Perspective

(1) Employee Training and Skills:

Number of CPDs attended per employee per year has increased from 5 in 2019 to 12 in 2021.

The increase in the number of CPD sessions attended per employee per year reflects a positive commitment to employee development. However, the company should also focus on providing targeted training and development opportunities to address specific skill gaps and support organizational objectives.

(2) Employee retention and satisfaction

Fostered a culture of continuous improvement and innovation as evidenced by the improvements in error rates and job completion times. Number of employees have increased from 14 in 2019 to 16 in 2021. Employee retention rates have increased from 82% in 2019 to 95% in 2021.

2.5 Recommendations Based on Balanced Scorecard Analysis:

By analyzing the quantitative and qualitative performance of Defoe Limited using the Balanced Scorecard methodology, we can develop a comprehensive growth strategy tailored to address the key challenges and opportunities facing the organization. By focusing on improving financial performance, enhancing customer satisfaction, optimizing internal processes, and investing in employee training and development, the company can overcome its growth crisis and achieve sustainable growth in the future.

(1) Financial Perspective: Improve Cost Management. Streamline the supply chain and optimize operational expenses to improve profitability.

(2) Customer Perspective: Enhance Customer Engagement and Market Share. Implement targeted marketing campaigns to increase brand awareness and attract new customers. Introduce new product lines to expand market share in existing and new product categories.

(3) Internal Processes Perspective: Optimize Supply Chain and Operational Efficiency. Consolidate suppliers and optimize inventory management to reduce costs. Implement lean management principles and continuous improvement initiatives to improve operational efficiency.

(4) Learning & Growth Perspective: Invest in Employee Training and Development. Continue to invest in employee training and development programs to enhance skills and improve internal processes. Foster a culture of continuous improvement and innovation to adapt to market changes and drive growth.

3 The need for business process reengineering

Defoe Footwear stands at a critical juncture necessitating strategic deliberations concerning its future trajectory and expansion initiatives. The following elucidates pivotal considerations pertinent to the analysis of business process re-engineering.

3.1 Future Expansion Plans

Defoe Footwear confronts a decisive moment in determining its strategic path. Whether to persist with its current luxury brand strategy or transition to penetration pricing, venture into additional market segments, or diversify into other industries, each avenue necessitates substantial modifications to its operational frameworks. Each new endeavor or market sector will entail unique operational requisites, customer anticipations, and supply chain dynamics.

3.2 Supply Chain Optimization

Presently, the company procures raw materials from Japan, yet an opportunity exists to mitigate costs through sourcing from alternative suppliers in Brazil, Benin, Thailand, and Vietnam. However, this endeavor necessitates a reassessment of the supply chain, renegotiation of contracts, and potential adjustment of inventory management processes to accommodate prolonged lead times and varied payment terms.

3.3 Working Capital Management

The current practice of exclusively cash-based sales may have worked in the past, but it may not be sustainable or conducive to future growth plans. Exploring credit options for customers, as well as optimizing inventory management to reduce carrying costs, could improve cash flow and working capital efficiency.

3.4 Retail Expansion

If the company decides to expand its retail arm to include fashion accessories like handbags, purses & wallets, and perfume & cosmetics, it will need to re-engineer its sales and distribution processes to accommodate these new product lines. This may involve setting up new sales channels, training staff, and integrating new inventory management systems.

3.5 Partnership Opportunities

The potential joint venture with Barnaby Holdings Ltd to produce luxury shoes from exotic sources presents both opportunities and challenges. Integrating production processes, managing quality control, and coordinating supply chains will require careful planning and likely adjustments to existing business processes.

3.6 Competitive Landscape

Analyzing the strategies and operations of competitors in the segments Defoe Footwear is considering entering can provide valuable insights into best practices and areas for improvement. This analysis can inform the re-engineering of processes to enhance competitiveness and differentiation.

4 Conclusion

In conclusion, our analysis of Defoe Footwear Limited's performance using the Balanced Scorecard methodology has provided valuable insights into the company's current standing and future prospects. Across the financial, customer, internal processes, and learning & growth perspectives, we have identified both areas of strength and opportunities for improvement.

Defoe Footwear stands at a critical juncture in its evolution, where strategic decisions regarding market positioning, expansion plans, and operational efficiency will significantly impact its future success. The exploration of various expansion avenues, including the continuation of the luxury brand strategy, adoption of penetration pricing, expansion into new market segments, and potential diversification into other sectors, underscores the company's ambitious growth aspirations.

As Defoe Footwear Limited moves forward, it is essential for the company to remain agile and proactive in responding to market changes and customer needs. By embracing a culture of continuous improvement and innovation, and by implementing the proposed recommendations, Defoe Footwear Limited can overcome its current challenges and thrive in the ever-evolving marketplace.

With a clear strategic direction and a commitment to excellence, Defoe Footwear Limited has the potential to achieve its long-term goals and become a leader in the footwear industry.

Bibliography

- [1] Bantwa, A. and Bhuva, D.R., 2020. Corporate performance evaluation through economic value added (EVA) and other conventional measures: An Empirical Study. Corporate Performance Evaluation through Economic Value Added (EVA) and Other Conventional Measures: An Empirical Study (November 22, 2020).
- [2] NILAWATI, N., 2004. Analisis Roi dan Eva terhadap Return On Shares Lq-45 di Bursa Efek Jakarta. Jurnal Bisnis dan Akuntansi, 6(2), pp.151-166.
- [3] Onica, C.M., 2019. Economic Value Added (EVA) as an Indicator for Financial Decisions. Annals of the University Dunarea de Jos of Galati: Fascicle: I, Economics & Applied Informatics, 25(3).
- [4] Chen, S. and Dodd, J.L., 2001. Operating income, residual income and EVA™: Which metric is more value relevant?. Journal of managerial issues, pp.65-86.
- [5] Chen, S. and Dodd, J.L., 2001. Operating income, residual income and EVA™: Which metric is more value relevant?. Journal of managerial issues, pp.65-86.
- [6] Göx, R.F. and Schiller, U., 2006. An economic perspective on transfer pricing. Handbooks of management accounting research, 2, pp.673-695.
- [7] Kumar, S., Pandey, N., Lim, W.M., Chatterjee, A.N. and Pandey, N., 2021. What do we know about transfer pricing? Insights from bibliometric analysis. Journal of Business Research, 134, pp.275-287.
- [8] Holtzman, Y. and Nagel, P., 2014. An introduction to transfer pricing. Journal of management development, 33(1), pp.57-61.
- [9] Guilding, C., Drury, C. and Tayles, M., 2005. An empirical investigation of the importance of cost - plus pricing. Managerial Auditing Journal, 20(2), pp.125-137.
- [10] Madhani, P.M., 2010. Resource based view (RBV) of competitive advantage: an overview. Resource based view: concepts and practices, Pankaj Madhani, ed, pp.3-22.
- [11] Madhani, P.M., 2010. The resource-based view (RBV): issues and perspectives. PACE, A Journal of Research of Prestige Institute of Management, 1(1), pp.43-55.
- [12] Bertram, M. and Bertram, M., 2016. Theoretical foundation: the resource-based view (RBV) of the firm. The Strategic Role of Software Customization: Managing Customization-Enabled Software Product Development, pp.67-102.
- [13] Loredana, E.M., 2016. The use of Ansoff matrix in the field of business. In MATEC Web of Conferences (Vol. 44, p. 01006). Les Ulis, France: EDP Sciences.
- [14] Clarissia, S.M.S., 2020. A study on Ansoff Matrix Technique: As a growth strategy and an adaptive learning technique adopted in the leading brand of products. BIMS Journal of Management, 18.
- [15] Ulza, E., Semenovna, S.T., Wijiharjono, N., Zulpahmi, Z. and Zamzany, F.R., 2017. Synchromarketing strategies and Ansoff matrix in increasing the company's revenue. C Man Behav Studies, 1(1), pp.305-315.

- [16] Jarvis, R., Curran, J., Kitching, J. and Lightfoot, G., 2000. The use of quantitative and qualitative criteria in the measurement of performance in small firms. *Journal of small business and enterprise development*, 7(2), pp.123-134.
- [17] Kaplan, R.S., 2009. Conceptual foundations of the balanced scorecard. *Handbooks of management accounting research*, 3, pp.1253-1269.
- [18] Kaplan, R.S., 2012. The balanced scorecard: comments on balanced scorecard commentaries. *Journal of Accounting & Organizational Change*, 8(4), pp.539-545.
- [19] Madsen, D.Ø. and Stenheim, T., 2015. The balanced scorecard: a review of five research areas. *American Journal of Management*, 15(2), pp.24-41.
- [20] Chavan, M., 2009. The balanced scorecard: a new challenge. *Journal of management development*, 28(5), pp.393-406.
- [21] Punniyamoorthy, M. and Murali, R., 2008. Balanced score for the balanced scorecard: a benchmarking tool. *Benchmarking: An International Journal*, 15(4), pp.420-443.
- [22] Al - Mashari, M., Irani, Z. and Zairi, M., 2001. Business process reengineering: a survey of international experience. *Business process management journal*, 7(5), pp.437-455.
- [23] Abdolvand, N., Albadvi, A. and Ferdowsi, Z., 2008. Assessing readiness for business process reengineering. *Business Process Management Journal*, 14(4), pp.497-511.
- [24] Terziovski, M., Fitzpatrick, P. and O'Neill, P., 2003. Successful predictors of business process reengineering (BPR) in financial services. *International Journal of Production Economics*, 84(1), pp.35-50.
- [25] Zaini, Z. and Saad, A., 2019. Business process reengineering as the current best methodology for improving the business process. *Journal of ICT in Education*, 6, pp.66-85.
- [26] Harika, A., Sunil Kumar, M., Anantha Natarajan, V. and Kallam, S., 2021. Business process reengineering: issues and challenges. In *Proceedings of Second International Conference on Smart Energy and Communication: ICSEC 2020* (pp. 363-382). Springer Singapore.

Appendix

1. Equation

$$\mathbf{ROI} = \frac{\text{Profit before tax}}{\text{Initial Investment}} \times 100\%$$

$$\mathbf{RI} = \text{Operating Profit} - (\text{Capital Employed} \times \text{Cost of Capital})$$

$$\mathbf{EVA} = \text{NOPAT} - (\text{Capital Employed} \times \text{Cost of Capital})$$

$$\text{Net Operating Profit After Taxes (NOPAT)} := \text{Operating Profit} - \text{Tax}$$

$$\mathbf{\text{Gross Profit Margin}} = \frac{\text{Gross Profit}}{\text{Turnover}} \times 100\%$$

$$\mathbf{\text{Return on Equity (ROE)}} := \frac{\text{Profit after Tax}}{\text{Shareholders' Funds}} \times 100\%$$

2. Ratios

Defoe Footwear:

	2019	2020	2021	2022
Gross Profit	700,000	820,000	600,000	320,000
Turnover	1,400,000	1,750,000	1,455,000	600,000
Gross Profit Margin	50.00%	46.86%	41.24%	53.33%

	2019	2020	2021	2022
Profit after Tax	243	301	86	-160
Turnover	845	975	985	825
Shareholders' Funds	28.76%	30.87%	8.73%	-19.39%

	2019	2020	2021	2022
Profit before tax	300,000	372,000	105,000	-175,000
NET ASSETS	845,000	975,000	985,000	825,000
ROI	35.50%	38.15%	10.66%	-21.21%