Cantor Group (Cantor) is a listed company with two subsidiaries, both involved in food and drink retailing in the small country of Deeland. Its mission is ‘to maximise shareholder value through supplying good value food and drink in appealing environments for our customers’.

Cantor Cafes (Cafes) is the original operating company for the group and is a chain of 115 cafes specialising in different coffee drinks but also serving some simple food dishes. Cafes has been running successfully for 15 years and has reached the limit of its expansion as the cafe market is now considered to be saturated with competition.

Further growth will occur only as the opportunity to obtain profitable, new sites is presented, although such opportunities are not expected to be significant over the next few years.

Cantor Juicey (Juicey) was started by the Cantor Group two years ago. Now, it is made up of 15 juice bars which serve a variety of blended fruit juice drinks and health snacks. The products served by Juicey have benefited from an increased awareness in Deeland of the need to eat and drink healthily. Cantor Group expects to increase the rate of property acquisition in order to feed the rapid growth of this business, intending to open 25 outlets per year for the next four years.

Cantor Group organises its two subsidiaries in a similar way, as they are involved in similar areas of business. There is one exception to this, namely in the arrangements over the properties from which the subsidiaries operate. Cafes rent their properties on the open market on standard commercial terms with a five-year lease at a fixed rental payable quarterly in advance. Juicey, on the other hand, has made a single arrangement with a large commercial landlord for all of its properties. Juicey has agreed that the rent for its sites is a percentage of the revenue generated at each site.

Juicey believes that it can continue its expansion by obtaining more sites from this landlord under the same terms.

The board of Cantor is reviewing their performance reporting systems and would like your evaluation of the current report given in Appendix 1. This report contains information for both of the subsidiaries and the group and is used by all three boards. The CEO has advised you that the board does not require an evaluation of Cantor’s performance.

However, the CEO does want you to consider the cost structures at Cantor and advise on the implications of the mix of fixed and variable elements in the key cost areas of staff and property for performance management.

At a recent shareholder meeting of Cantor, one of the large shareholders expressed concern that the group lacks focus and suggested the introduction of value-based management (VBM) using economic value added (EVATM) as the measure of value. Cantor’s CEO has asked you, their strategic management accountant, to give the board more information on the implications of this suggestion. She has asked you to do an example calculation of the EVATM for the Group using the current data (Appendices 1 and 2) and explain how the shareholders might view the result. Next, the board needs to have the VBM system explained and evaluated to be able to make a decision about its use at Cantor.

Finally, the board is considering amending the mission statement to include more information on the ethical values of the company. The area being considered for inclusion in the overall mission is on the treatment of employees as it is felt that they should share in the progress and profitability of Cantor since a happy working environment will help them to better serve the customers.

The proposed new mission statement would read:

‘to maximise shareholder value and to provide a fair deal to our employees by supplying good value food and drink in appealing environments for our customers.’

The CEO has asked you to consider how the Group's performance in the area regarding employees could be measured using the current management information at Cantor. You have obtained additional information from the management information system to assist with this task, given in Appendix 3.

Appendix 1

Cantor Group	Year to 31 March Cafes	Cafes	Juicey	Juicey	Group	Group	Costs and profit as a % of revenue	
	Budget 2014 $	Actual 2014 $	Budget 2014 $	Actual 2014 $	Budget 2014 $	Actual 2014 $	Group	Industry average
Revenue								
Drink	47,437,500	46,521,000	5,130,000	5,398,000	52,567,500	51,919,000		
Food	15,812,500	15,913,000	570,000	582,000	16,382,500	16,495,000		
Total	**63,250,000**	**62,434,000**	**5,700,000**	**5,980,000**	**68,950,000**	**68,414,000**		
Cost of sales								
Drink	12,808,125	12,560,670	1,385,100	1,457,460	14,193,225	14,018,130		
Food	3,478,750	3,500,860	125,400	128,040	3,604,150	3,628,900		
Total	**16,286,875**	**16,061,530**	**1,510,500**	**1,585,500**	**17,797,375**	**17,647,030**	25·8%	
Gross profit	**46,963,125**	**46,372,470**	**4,189,500**	**4,394,500**	**51,152,625**	**50,766,970**	74·2%	72·8%
Staff costs	**16,128,750**	**15,920,670**	**1,453,500**	**1,524,900**	**20,082,250**	**21,345,000**	31·2%	30·9%
Other operating costs								
Rent	2,875,000	2,875,000	342,000	358,800	3,929,000	3,945,800		
Local property tax	920,000	920,000	60,000	60,000	980,000	980,000		
Insurance	276,000	282,000	18,000	18,400	294,000	300,400		
Utilities	874,000	861,000	61,500	62,900	935,500	923,900		
Marketing	6,957,500	6,888,000	627,000	750,000	7,584,500	7,638,000	11·2%	10·0%
Depreciation	4,427,500	4,427,500	353,400	353,400	4,780,900	4,780,900		
Total	**16,330,000**	**16,253,500**	**1,461,900**	**1,603,500**	**18,503,900**	**18,569,000**	27·1%	
Operating profit	**14,504,375**	**14,198,300**	**1,274,100**	**1,266,100**	**12,566,475**	**10,852,970**	15·9%	15·3%
Finance costs					798,000	801,000		
Group profit before tax					**11,768,475**	**10,051,970**	14·7%	
Tax					2,942,119	2,512,993		
Group profit after tax					**8,826,356**	**7,538,977**	11·0%	

Appendix 2

Additionally, you have discovered the following data about the group for the financial year:

1 Debt/Equity 30.0%
2 Cost of equity 15.7%
3 Tax rate 25.0% 4 Group ROCE 19.0%
5 Group capital employed: $53,400,000 at period start and $58,500,000 at period end.
6 Pre-tax cost of debt 6.5%
7 There has been $2.1m of tax paid in the year.
8 It is estimated that half of the marketing spend of $7.638m is building the Cantor brand long term. 9 It is further estimated that there has been the same level of annual spending on long-term brand building in the years leading up to 2014.

Appendix 3

Additional management information

	Cafes	**Juicey**	**Group**
No of employees			
At year start	1,495	96	1,611
Leavers	146	15	161
Joiners	152	35	187
At yearend	1,501	116	1,637

Note:
1. Group numbers include Cafes, Juicey and head office numbers

Required:
Write a report to the CEO of Cantor to:

(ii) Assess the balance of fixed and variable elements of the CEO's two key costs in each of the two subsidiaries and the impact which this may have on performance management of these costs.
Note: Detailed calculations are not required. (6 marks)

Professional marks will be awarded for the format, style and structure of the discussion of your answer. (4 marks)