SOGO HONG KONG

Lifestyle International Holdings Ltd. 利福國際集團有限公司

The HKICPA Accounting and Business Management Case Competition 2019-20 (Level 2)

Table of Contents	
Executive Summary	p.1-2
Introduction	p.2
Overview of Lifestyle International Group's financial performance	p.3-7
Trend Analysis of the Lifestyle International Group's financial performance	p.7-9
SWOT Analysis	p.9-11
Business Plan	p.12-17
Conclusion	p.17
References	p.17
Survey questionnaire and results	p.18-25

A. Executive Summary

Vision, current state of business and strategic direction of its department store operations

The group's main vision is to continue to be the *leading lifestyle business operator in the Greater China Region*, with focus on operating the *mid to upper-end department stores* in Hong Kong, i.e. SOGO.

Even with the volatile business environment, the group still continued to *make high turnover*, and achieved *record-breaking sales* at its SOGO department stores in *Causeway Bay* and *Tsim Sha Tsui* in 2018 while a new one is expected to be completed in *Kai Tak*, East Kowloon by 2022. The group is currently the leading mixed retailer with brand share of *21.1%* in Hong Kong providing a *wide range of products*, with *family and women* as their major customers.

The group aims to further enhance market share by maintaining proven policy of steadily *introducing new products* to customers from both local and international brands. It aims to *maximize customer awareness and purchase patterns* and bring forth a market approach to *get in touch with customers* in the market to understand their needs.

Key findings, main conclusion and key recommendations

From a financial perspective, the group has had an *improvement in management efficiency* yet had *worsened profitability, liquidity and solvency* in 2018. This is mainly due to the investment and fair value loss and heavier debt-financing. The department

store operations have performed satisfactorily, however its *investment strategy needs to be revisited* to improve net profit.

SOGO has an advantage in *geographical location* and its *well-known brand name*. However, the group has *weak exposure on social media* which caused less exposure to potential customers while the high prices has limited the variety of customers shopping in the department stores. The group also has a *small-scale online shop* with *unattractive products* which caused the low profit gained through the eshop.

The group should have a better control in operating expenses and its investment strategy and reduce the reliance on debt-financing. The group should explore the senior citizen market and expand its online store to make use of the ongoing trends for short and long term development.

We recommend the group to expand its elderly market by *offering elderly discounts* and holding *elderly product exhibitions* to increase SOGO's reach to the elderly market. The online platform is also advised to expand by *inviting more brands and shops* to sell products on the platform and introduce more daily necessities. The group should also *increase its exposure on online media* to expand customer base. Several *Japanese food events* are also recommended to be held to attract more customers.

B. Introduction

The background, objectives and scope of our business proposal

Lifestyle International's departments stores (i.e. SOGO) had an *increase in turnover and sales proceeds*. However the *total profit of the year* has *decreased* a lot due to investment and fair value losses caused by the worsening of the external market environment. The group also has a *slight decline* in its *gross profit margin*. The performance of SOGO will be reviewed through financial and SWOT analysis.

The business proposal is to *further enhance the operational performance of the group's department stores* in Hong Kong from both financial and non-financial perspectives. A *market survey has been conducted* to find out how people understand and feel towards SOGO department stores, potential of the elderly market and its online platform. Suggestions are made to enhance SOGO's operational performance based on the findings.

C. Overview of Lifestyle International Group's Financial Performance

Profitability Ratios

Items	Formula and workings	2018	2017
Gross Profit Margin	Gross Profit/Sales X 100% 2017: 2830590,000 ÷ 3755092000 X 100%; 2018: 3215262000 ÷ 4358010000 X 100%	73.38%	75.38%
Net profit Margin	Net Profit Before Tax/Sales X 100% 2017: 3412689000 ÷ 3755092000 X 100%; 2018: 2162376000 ÷ 4358010000 X 100%	49.62%	90.88%
Return on capital employed	Net Profit Before Interest and Tax/ Average Capital Employed X 100% 2017: (3412689000 + 228954000) ÷ [(13442613000+8013000 + 3870653000 + 9763188000 + 8013000 + 1675509000 + 597542000) ÷ 2] X 100%; 2018: (2162376000 + 282187000) ÷ [(13042062000 + 7510000 + 2923874000 + 13442613000 + 8013000 + 3870653000) ÷ 2] X 100%	14.68%	24.80%
Return on Average Assets	Net Profit After Tax/ Average Total Assets X100% 2017: 2875674000 ÷ [(10377112000 + 10986442000 + 10629737000 + 10225987000) ÷ 2] X 100%; 2018: 1690070000 ÷ [(11056160000 + 9511343000 + 10377112000 + 10986442000) ÷ 2] X 100%	8.06%	13.62%

The gross profit margin was *high* for both 2017 and 2018. It has reduced slightly by *1.6%* due to the higher growth in direct sales compared to After Purchase Order and concessionaire sales in 2018. The growth of direct sales is contributed by the overwhelming response during *Thankful Week* which accounts for 27% of total sales proceeds of SOGO Causeway Bay. The net profit margin was very high in 2017 but *decreased* a lot by *41.26%* due to the lower revaluation and fair value gain especially on the Kai Tak Land despite the high turnover and gross profit from department store operations in 2018. The group also had higher selling and distribution cost due to higher rent and depreciation charges. The return on capital employed was *satisfactory* in both 2017 and 2018. However it has reduced by *10.12%* in 2018 due

to the investment loss and lower revaluation gain as well as the decline in capital of the group. The group has used a huge amount to repurchase and cancel shares which decreased the share capital to increase flexibility of the group. There is a *slight reduction* in terms of return on average assets, this shows that the effectiveness of converting the assets the group has into profit has reduced. Although the profitability of the group has decreased, it is still in a profitable position.

Management Efficiency Ratios

Items	Formula and workings	2018	2017
Average Inventory Turnover Period	Average Inventory/ Cost of Goods Sold X 365 Days 2017: (38305000 + 35454000)÷2/ 924502 x 365 days; 2018: (44783000 + 38305000)÷2/ 1142748 x 365 days	13.27 days	14.56 days
Average Trade Payables Repayment Period	Average Trade Payables/ Credit Purchases X 365 Days Based on 2018 annual report(after restatement) 2017: (91094000 + 177669000*)÷2/ (924502000 + 38305000 - 35454000) x 365 days Based on 2017 annual report (before restatement) 2017: (212794000 + 177669000)÷2/ (2112296000+37571000-34533000) x 365 days; 2018: (72082000 + 91094000)÷2/ (1142748000 + 44783000 - 38305000) x 365 days * Due to lack of information in 2018 annual report, data from 2017 annual report was used as reference	25.91days	53.05 days 33.69 days
Total Assets Turnover	Sales/ Average Total Assets 2017: 3755092000 / [(10377112000 + 10986442000)+(10629737000+10225987000)]÷2; 2018: 4358010000 / [(11056160000+9511343000)+(10377112000 + 10986442000)]÷2	0.21times	0.18 times

Overall, management efficiency has *improved*. The average inventory turnover period has *reduced* from *14.56 days* to *13.27 days*, which means the company managed to sell the inventory more quickly mainly due to the increased sales during the Thankful Week. The average trade payables repayment period has *decreased* greatly which is a good improvement due to more timely settlement of trade payables as a result of improved operating cash flows. This will grant

them a better word-of-mouth to the creditors and the creditors will be more willing to supply goods to them. There is a slight *increase* of *16.7%* in total assets turnover. Total assets turnover *increased* slightly to *0.21* times in 2018 due to the higher sales representing better efficiency in asset utilization. All in all, Lifestyle International Group had better management of resources to generate profit.

Liquidity Ratios

Items	Formula and workings	2018	2017
Current Ratio	Current Assets/ Current Liabilities 2017: 10986442000/4042275000; 2018: 9511343000/4594057000	2.07:1	2.72:1
Quick Ratio	(Current Assets - Inventories - Prepayments)/ Current Liabilities 2017: (10986442000-38305000-0) /4042275000; 2018: (9511343000-44783000-0)/4594057000	2.06:1	2.71:1
Cash Ratio	Cash and Cash Equivalents/ Current Liabilities 2017: 7423068000/4042275000; 2018: 1413115000/4594057000	0.308:1	1.84:1

The liquidity of the company has decreased compared to 2017 but still in an acceptable range. The company had high current and quick ratios in 2017 but both ratios *decreased* slightly to *2.07:1* and *2.06:1* in 2018 mainly due to the repurchase of shares (100,670,500 shares) which is intended to provide the Group with additional flexibility and benefits. Despite the repurchase, the current ratio and quick ratio attained by the Group is still *acceptable* for the group to meet short-term liabilities. The cash ratio was at a high level in 2017 but has *dropped* largely to *0.308:1* in 2018 which implies the company may face the problem of having insufficient cash to pay off short-term liabilities. The decrease is due to the repurchase of shares and placement of time deposits. The company still has *sufficient* liquidity but is advised to raise more cash in hand to pay for short-term liabilities.

Solvency Ratios

Items	Formula and workings	2018	2017
Gearing Ratio	Non-current Liabilities + Preference Share Capital / Non-current Liabilities + Shareholder's Equity X 100% 2017: (13442613000 + 0) ÷ (13442613000 + 3878666000) X 100%; 2018: (13042062000 + 0) ÷ (13042062000+ 2931384000) X 100%	81.65%	77.61%
Debt to Equity Ratio	Total Liabilities/ Shareholders' Equity X100% 2017: (4042275000 + 13442613000) ÷ 3878666000 X 100% ;2018: (4594057000 + 13042062000) ÷ 2931384000 X 100%	601.6%	450.8%
Time Interest Earned	Profit Before Interest and Tax/ Interest Expense 2017: (3412689000 + 228954000) ÷ 228954000; 2018: (2162376000 + 282187000) ÷ 282187000	8.66 times	15.9 times

The solvency of the company has worsened, which is concerning. The group is heavily debt-financed in both 2017 and 2018. There was a *significant increase* of *150.8%* in debt to equity ratio, which implies the company is more debt-financed in 2018. Both gearing ratio and debt to equity ratio *increased* in 2018 due to a decrease in shareholder's fund caused by the repurchase and cancellation of 100,670,500 ordinary shares and dividends payment higher than profit generated. This shows that the company is more heavily debt-financed and may face more difficulties for further borrowings and to repay debts from its equity funds. The time interest earned is at a *high* level of almost *16 times* in 2017 but there is a *decrease* to *8.66 times* in 2018, which means the company is less capable to repay the interests however the level is still acceptable. This is due to the investment loss on financial instruments, and the lower revaluation gain especially on the Kai Tak Land. In general, the company is becoming more debt-financed which may put pressure on its credit rating.

Return on Investment Ratios

Items	Formula and workings	2018	2017
Earnings Per Share (EPS)	Profit Attributable to Owners of the Company / Number of Ordinary Shares Issued 2017: 2875674000/1602587000; 2018: 1690070000/1567701000	$1.078/share	$1.794/share
Price-Earnings Ratio (P/E Ratio)	Current Price per Ordinary Share / Earning Per Share (EPS) 2017: 10.34/1.794; 2018: 11.86/1.078	11.00 times	5.76 times

The return on investment of the company was at an acceptable level. The earnings per share has decreased from *$1.79/share* in 2017 to *$1.08/share* in 2018. This represents that the income generated from each share has decreased by almost *40%*. This is due to the huge loss in investment and lower unrealized gain of investment properties, which are both mainly due to the poor equity market condition. The price-earnings ratio was *low* in 2017 but *increased* significantly by *5.24 times* in 2018 which shows that investors have a *higher degree of confidence* in the company. This shows that although the company made less profit, the investors still have confidence in the company.

D. Trend Analysis of the Lifestyle International Group's Financial Performance

Item (%change)	Lifestyle International Holdings Ltd.	Aeon (Hong Kong) Stores Co., Ltd	Wing On Company International Limited
Revenue (group)(HK operations)	$4,358,010,000 (+16.1%)	$4,376,904,000 (+2.56%)	$1,462,829,000(-1.78%)
Revenue (HK department store)	$4,192,851,000 (+14.7%)	$4,376,904,000 (+2.56%)	$994,444,000 (-5.60%)
Net Profit (Loss) before tax	$2,162,376,000 (-36.6%)	~$(21,483,000)(+159%)	$1,857,607,000(-35.3%)
Net Profit Margin (HK operations)	49.62%	-0.49%	126.99%

Revenue

Revenue *increased 16.1%* from $3,755,092,000 in 2017 to $4,358,010,000 in 2018, mainly due to 22.7% increase in direct sales and 10.2% in concessionaire sales. There are also increases in APO sales, services and rental income. Although the *weakening in Chinese yuan* and *emergence of US-China trade war* have a negative effect on customer spending with lower revenue recorded in the first half of 2018, comparing to its competitors, it has the largest increase in revenue. A reason contributing to the increase in turnover is the establishment of new-built infrastructure such as the *high speed railway* and *Hong Kong-Zhuhai Macau Bridge*, coupled with its good geographical location with close proximity to these infrastructure. Mainland customers could visit the SOGO department stores more often. Another reason is the *successful promotion activities* (i.e. Thankful Week). Many customers were attracted to visit the stores thus increasing the revenue. With *Kai Tak project* launching in 2022, the trend is expected to rise accordingly.

Net profit before tax

Net profit before tax *reduced* from $3,412,689,000 in 2017 to $2,162,376,000 in 2018. Although the turnover has increased by 16.1%, cost of goods sold increased in a larger percentage due to turnover mix. The group sustained an *increase in selling and distribution cost* caused by additional rental expense in its Tsim Sha Tsui store and higher depreciation charge. In addition, there is an investment loss and lower revaluation gain of the Kai Tak Land in 2018, as compared to the investment gain in 2017, which largely reduced its net profit. Such impacts have also affected its competitors. Although there is an improvement in Aeon, the company still *attained a net loss* while Wing On generated a *lower net profit* compared to the group. Net profit before tax is expected to rise if operational costs are controlled well and the financial market becomes stable, outperforming its competitors.

Net profit margin

Net profit margin suffered a *reduction* of *41.26%* in 2018 mainly due to the investment loss and lower unrealized gain. Both competitors also suffered from these due to the volatile financial market. The 16.1% increase in turnover to $4,358,010,000 in 2018 with the net profit before tax reduced to $2,162,376,000 in 2018 caused the net profit margin

to reduce by a large percentage. Aeon suffered a net profit margin of *-0.49%* since it sustained a net loss while Wing On's was *127%* due to the *low turnover* compared to the group. If the group regularly revisits its investment strategies and portfolio in line with external market environment, a higher net profit margin is expected in the future.

Inventory turnover ratio

Formula	2018	2017
Cost of goods sold/ Inventory	24.14 times	25.52 times

Inventory turnover *increased* slightly by *5.41%*. The company managed to sell the inventory more quickly due to the *increased sales* during Thankful Week. The increase also means a *better inventory management*. This could reduce inventory obsolescence and thus generate more profit. With stable rise in turnover and better cost control, the company could continue the trend of increasing inventory turnover.

Total asset turnover ratio

Total assets turnover has *risen* to *0.208* in 2018, with an *increase* of *16.7%* .This reflects that the company has been using its assets to generate sales more efficiently. This increase is mainly due to the *high sales revenue increase* of *$602,918,000* from 2017 to 2018. If the company continues to have a high turnover, the ratio is expected to continue its increasing trend.

E. SWOT Analysis

Strength

i. **Good geographical location**: The SOGO department stores are located in Causeway Bay and Tsim Sha Tsui, which are *central business districts* with *high visitor traffic levels*. Tsim Sha Tsui store enjoys the benefit of *good transportation*. The newly constructed high-speed railway station in West Kowloon facilitated more Mainland visitors to the store. The Causeway Bay store is *close to the group's target customers*, which are mostly tourists and Hong Kong Island residents. The Kai Tak project to be completed by 2022 also enjoys a good location due to the construction of the new Kai Tak MTR station and the *rising purchasing power in the East-Kowloon district*.

ii. **Wide variety of products**: There is a *large variety of brands* in the department

stores. There are more than 170 shops in Tsim Sha Tsui and more than 600 shops in Causeway Bay. The products vary from daily necessities to luxury products. The diverse range of products allows people of *all age groups* to shop in the department stores. This *increases its competitiveness* in the retail industry.

iii. **High brand recognition in the industry**: SOGO is currently the *leading company* in its industry, with *21.1%* of *mixed retailers brand share*, followed by Yata and Lane Crawford. Being ranked the first in the industry has a positive effect on its reputation and could easily gain recognition from customers as their *preferred department store*. Our survey has shown most of the respondents know about SOGO from family and friends which shows that SOGO has a *good reputation*, increases its competitiveness.

iv. **Successful promotion activities**: SOGO held *different promotion activities*, with *Thankful Week* being the most successful. Thankful Week is held twice a year, in May and November. 27% of the total sales proceeds of Causeway Bay store was contributed during the Thankful Week events. It also held activities such as *VIP Shopping Week*. Such activities attracted customers to the store, increasing their exposure to SOGO.

Weakness

i. **Weak exposure on social media** : Compared to one of the major competitors in Hong Kong, YATA, there is a huge difference in the number of followers on Facebook, which is nearly 300k for YATA and about 150k for SOGO. This marks the *enormous gap* in the *advertising influence* of the two stores towards *social media users*, mainly teenagers and young adults. People would be less aware of SOGO and its latest information as supported by our survey. This *limits its customer reach*.

ii. **Limited variety of customers**: SOGO mostly *provides middle to high-ended products*, with only a few shops providing products with affordable prices for young adults and teenagers. They would rather purchase products from other shops with lower prices. This *limits its customer base* to only middle to high class customers

iii. **Unattractive app**: The *SOGO Rewards app* is rather *unattractive* and *not well-developed*. Although there is a rather large amount of users, complaints about it such as system malfunction and unattractive gifts redemption are often heard from the users.

Opportunity

i. **Aging population**: The *population of elderly is growing* and the trend is expected to

continue and rise to around 35% of total population in 50 years. The *need for elderly products would increase* with the aging population. This poses an opportunity for the group to further expand its elderly market and enlarge its customer base.

Ii. **Increase in usage of e-commerce**: With the advancement in technology, the *popularity of online shopping has increased*. Through online shopping, people can purchase goods in a *more convenient and efficient way*. By expanding the online platform, customers would be able to shop online and the problem of a crowded environment in the department stores could be alleviated.

iii. **Rise of purchasing power**: The *GDP per capita* in Hong Kong has been *rising* in the past few years and the trend is expected to continue. The number of people with *middle and high income levels* will increase which implies *higher purchasing power* and a strive for a *more luxurious life*, expanding the customer base of SOGO in the long run.

Threat

i. **Political instability and trade protectionism**: Due to the *social incident* in the past year, there are protests and road blockages, which cause concern to the customers and affect their shopping and consuming desire. This *reduces the flow of people* nearby Causeway Bay and Tsim Sha Tsui, as they are the common spots of the protests and blockages. Coupled with the rising trade protectionism, customers would be *more cautious before spending*, thus affecting the sales of the retail industry including SOGO.

ii. **More competitive industry**: With the increasing number of department stores and rise of online stores, the industry is getting *more competitive*. With more department stores, the total *revenue of the industry would be diversified into different stores*. On the other hand, *online stores* provide a *new kind of shopping channel* which attracts more customers as it is more convenient and efficient. This attracts more people, especially young adults and teenagers, to shop in online stores instead of physical ones.

iii. **Weakening of Chinese yuan**: Many SOGO customers are from Mainland China and contributes a lot to the revenue of the store. With the *weakening of Chinese yuan*, it would cost more for *Mainland visitors* to buy products in Hong Kong as they will be more expensive after currency conversion, *reducing their consuming sentiment*. This may result in a gradual reduction in sales of SOGO and hinder its development.

F. Business Plan

With the trend of *aging population*, *increasing popularity of e-commerce* and *Japanese food*, this proposal aims to expand SOGO's customer base to the elderly and the Japanese food market and expand the online shopping platform.

1. Japanese Food Penetration

i. Japanese FoodFest

With the increasing popularity of Japanese food among the public, SOGO should combine this with its Japanese characteristics and hold *Japanese FoodFests twice a year* in between the two Thankful Week events, each lasting for a week. The format of the event would be similar to Thankful Week, however only Japanese food products would be included. During the FoodFests, *seasonal Japanese food* would be imported directly from Japan and *Japanese food would enjoy discounts*. Since SOGO is well-known as a Japanese store, the public would prefer to purchase Japanese products in SOGO than elsewhere. This is expected to bring in more sales for the store.

ii. Online Food Expo

During the Japanese FoodFest, SOGO should *add the Japanese food products to the estore*. Customers would enjoy *discounts for purchasing Japanese food products*. In addition, SOGO should also *cooperate with Japan food stores overseas* and add their *exclusive products* to the estore. This would provide a wider variety of products for customers to choose from. With this, the environment in SOGO during the event would be less packed as some would rather purchase online and potential customers' worry of having to shop in a crowded environment could be relieved.

iii. Seasonal Pop-up Counters

Seasonal pop-up counters selling exclusive Japanese food products would be set-up every quarter. The products featured would be exclusive Japanese food that is *not commonly sold* in Hong Kong, for example, lavender flavored ice cream in summer. The ingredients would be *directly imported from Japan* to provide the customers with authentic Japanese taste. *Famous Japanese chefs* would also be hired to produce the products to increase attractiveness. The stores would be set-up in promotional areas in Tsim Sha Tsui SOGO and on the 21st Floor of Causeway Bay SOGO. The counters would be *designed with Japanese elements* so that customers could enjoy the food

products at the counters as if they were in Japan. This could attract more customers especially food lovers to visit SOGO, and in turn enlarge the customer base of SOGO.

2. Silver Market Expansion

i. Elderly Discount Scheme

SOGO should expand its elderly customer base with the increasing aging population in Hong Kong. Elderly population is expected to exceed the current level by over a million to 2.37 million in 2036. The Elderly Discount scheme *provides a 10% discount to elderly* with a senior citizen card to purchase certain elderly products placed with *green labels*. Pamphlets including the elderly products would be placed at the entrance of the stores. Discount offers are regarded by 40% as important according to a survey done by the Consumer Council. The discount offer would help to *boost sales in the short-term* and *increase the customer base in the long-term* and enhance the reputation of the store.

ii. Elderly Product Exhibition

An *elderly product exhibition* with a *unique theme* would be held every quarter on the 16th and 21st floor of SOGO Causeway Bay. *Cooperation with homes for the elderly* would be made in which 20 with most applicants would be invited to participate in each exhibition. Products in the exhibition include *various elderly products* with *lower prices*. Around 15 relevant shops would be invited to participate in each exhibition. *Coaches would be arranged* for the elderly's commute. Each exhibition would last for a week and elderly centers would be given *designated time slots* of 1.5 hours each to join the exhibition so that they can shop in a relaxed manner with abundant time to ask questions on the functionalities of the products, while the public would visit the exhibition at other times. Promotion of the exhibition would be made by giving *$20 discount coupons in exchange for 1000 points in SOGO Rewards app* which could be used for every $100 purchase in the exhibitions. This could increase its share of the silver market, benefiting SOGO for both short-term and long-term development.

3. Digital Marketing Channel

i. Online Shopping Platform Improvement

Expansion in SOGO estore should be made to *increase e-commerce sales*. SOGO estore currently has a limited variety of products and is unattractive to the public. To improve sales, SOGO should *invite more brands to join the online platform to increase*

the variety of products especially daily necessities and home appliances as they are the most common products purchased online. The estore can also provide *free delivery for customers with over $500 purchase* and allow them choose to pick-up their product in a specific SOGO store or enjoy the delivery offer. The scheme could attract more people to visit SOGO estore and purchase more products with the improved delivery offer.

ii. Online Media Advertisement Expansion

SOGO should *increase its exposure on online media* to increase customer base. Currently, Sogo has its own page on social platforms. However, only one post is posted each day during non-peak period which causes the low acknowledgement of SOGO through online platforms. SOGO should have *at least 3 posts during peak period* everyday to appear more frequently on users' interface. The posts should encourage interactions with its viewers to maintain a good customer relationship. *Critical comments such as complaints and opinions should be replied promptly* so consumers demand and dissatisfaction could be settled in time. Direct advertisements should be applied as well. *Advertisements in YouTube, Instagram and Facebook* would be made due to the high popularity of these platforms. Advertisements through online media can increase the exposure of SOGO to more potential consumers and creates a linkage with its own website and online shopping platform, attracting people to visit or even purchase products more frequently. The advertisement would be *updated and renewed frequently* featuring different events held in the shop. These will attract more customers, create a stronger bond with current customers, and foster goodwill and brand loyalty.

Implementation details

Improvement of estore								
	Year ending 31 December 2020				Year ending 31 December 2021			
Campaign	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Online shopping platform improvement	Do research to find possible shops and brands, and find delivery partners	Analyse the research result and narrow down the companies and delivery partner	Negotiate and settle deals with the potential shops and delivery partner	Update the estore and add the new shops to the online platform	Evaluate the effectiveness and performance of delivery partner	Improve the system		
Online Food Expo	Do research on possible Japanese store partners	Contact and settle deals with partners	Launch first expo by adding Japanese partners to the estore and upload new content (Japanese food discount)	Evaluation of the first Online Food Expo	Launch second Online Food Expo	Evaluation of the second Online Food Expo and explore more Japanese store partners	Launch third Online Food Expo	Evaluation of the third Online Food Expo and explore more Japanese store partners
Improvement of online advertisement								
	Year ending 31 December 2020				Year ending 31 December 2021			
Campaign	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Online media advertisement expansion	Do research and hire staff and designers for designing advertisement	Design advertisement	Launch campaign (Start advertising in YouTube, Instagram and Facebook and launch posts regularly)	Evaluate the effectiveness and improve advertisement	Regular posts uploads	Regular posts uploads	Regular posts uploads	Regular posts uploads

Events								
	Year ending 31 December 2020				Year ending 31 December 2021			
Campaign	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japanese FoodFest	Do research on public's favourite Japanese food products and negotiate with current Japanese food shops in SOGO to join the event	Analyse result and start souring food from Japan and settle deals with the shops	Launch first Japanese FoodFest	Evaluation and receive comments of the first Japanese FoodFest and take corrective actions	Launch second Japanese FoodFest	Evaluation of second Foodfest	Launch first Japanese FoodFest	Evaluation of third Foodfest
Seasonal Pop-up Counters	Do market research to find out what Japanese products the public likes but are not popular in Hong Kong	Analyse results and design products for the first event	Contact Japanese venders for ingredients of the event and design products for second event	Test and improve the products for the first event, and contact venders for ingredients of second event, and design products products for third event	Launch first event, test and improve products for second event, contact venders for ingredients of third event, and design products for fourth event	Launch second event, test and improve products of third event, contact venders for ingredients of fourth event, and design products for fifth event	Launch third event, test and improve products of fourth event, contact venders for ingredients of fifth event, and design products for sixth event	Launch fourth event, test and improve products of fifth event, contact venders for ingredients of six event, and design products for seventh event
Elderly Product Exhibition	Find shops that sell the elderly products required in the event, and do research on potential elderly centres that are willing to cooperate	Contact the potential shops and elderly centres	Negotiate and settle deals with the shops and elderly centres	Design advertisements and promote the event, and contact and negotiate with coach companies	Launch first exhibition, contact and settle deals with potential shops for second exhibition	Evaluate first exhibition, launch second exhibition, contact and settle deals with potential shops for third exhibition	Evaluation second exhibition, launch third exhibition, contact and settle deals with potential shops for fourth exhibition	Evaluate third exhibition, launch fourth exhibition, contact and settle deals with potential shops for fifth exhibition
Program								
	Year ending 31 December 2020				Year ending 31 December 2021			
Campaign	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Elderly Discount Scheme	Design poster and pamphlets to advertise and promote the program	Decide on products that will enjoy the discount and put green labels on them	Launch the program	Evaluation and improve program				

Marketing Expenses Budget

Campaign	Details	Cost (HK$'000)	% of total budget
Japanese FoodFest	Cooperation Fee	450	4.5%
	Research Expenses	120	1.2%
	Administrative Expenses	100	1%
	Discounts to Customers	800	8%
	Sourcing Fee	450	4.5%
	Promotion Expenses	100	1%
Online Food Expo	Cooperation and Commission Fee	600	6%
	Delivery Fee	200	2%
	Discounts to Customers	800	8%
	Promotion Expenses	100	1%
	Research Expenses	120	1.2%
Seasonal Pop-up Counters	Sourcing Fee	500	5%
	Chefs recruitment	350	3.5%

	Design for counters	80	0.8%
	Research Expenses	100	1%
	Promotion Expenses	100	1%
Elderly Discount	Promotion Expenses	250	2.5%
	Discounts to Customers	750	7.5%
	Administrative Expenses	100	1%
Elderly Product Exhibition	Cooperation Fee	600	6%
	Transportation Fee	250	2.5%
	Discounts to Customers	500	5%
	Research Fees	100	1%
	Promotion Expenses	150	1.5%
Online Shopping Platform Improvement	Regular Update and Maintenance	300	3%
	Cooperation Fee	700	7%
	Delivery Fee	200	2%
Online Media Advertisement Expansion	Design staff recruitment	350	3.5%
	Advertisement consultant	200	2%
	Advertisement Fee	360	3.6%
Contingency budget		220	2.2%
Total Budget		***10,000***	***100%***

Projected Impacts on Average Daily Orders, Average Transaction Value and Sales

Average daily orders: With the online media advertisement expansion, customer base is expected to increase. By promoting elderly products and expanding the online shopping platform, it is expected that the average daily orders would *increase* by around *5%* for 2020 and further increase by around *15%* in 2021 with continuation of the events.

Average transaction value: With numerous discounts being provided in different events and the elderly discount, the average transaction value is expected to *decrease* by *3%* in 2020 and a slight reduction of around *5%* in 2021 with more events ongoing.

Sales: Implementation of the plan would have a positive effect on sales and improve the brand image of the company. With increased customer base and improved reputation, adding on with attractive products and offers, the sales of the company is expected to

increase consistently in the long run. The direct sales amount is expected to *increase* by 5% in 2020 with the launching of several events. With more events being held, the direct sales amount is expected to further increase by around *12%* in 2021.

G. Conclusion

Overall, the group should *expand its customer base* and *increase its exposure to the public*. As reflected in the financial analysis, the group should have tighter control on its operating expenses and become less debt-financed. The SWOT analysis reflected that the group has *weak exposure in media* and limited variety of customers. The group should *make use of the social trends*, and several *promotional plans* are made to further improve the group's financial and non-financial performance. The highlights of the plan are *holding more Japanese food events, improving online stores and increasing exposure to the elderly market*. These plans are believed to increase its customer base and its exposure to the public, and will benefit the group in the long run.

H. References

Lifestyle International Holdings Limited; 2018,2017 Annual Report
http://media.lifestylehk.com.hk/20190325192501001034359 23_tc.pdf
http://media.lifestylehk.com.hk/20180328194701000330909 10_en.pdf

Aeon Stores (Hong Kong) Co,. Ltd.; 2018 Annual Report
https://www.aeonstores.com.hk/announcement/download?id=348&q[id_eq]=348&f=file_en

Wing On Company International Limited; 2018 Annual report
https://www.tricor.com.hk/webservice/000289/file/financial_report/eng/E_00289_AR_2018.pdf

Euromonitor international(Jan 2019) Department Stores in Hong Kong, China
https://www.euromonitor.com/department-stores-in-hong-kong-china/report

Consumer Council: Risk or Opportunities A study on building an age-friendly consumption environment
https://www.consumer.org.hk/sites/consumer/files/Elderly_Report/A%20Study%20on%20Building%20an%20Age-friendly%20Consumption%20Environment%20-%20Full%20Report.pdf

I. Survey questionnaire and results

HKICPA Accounting and Management Case Competition 2019-2020
Questionnaire of market survey

1. Gender
   □ Male □ Female

2. Age
   □ <20 □ 20-30 □ 31-40 □ 41-50 □ 51-60 □ >60

3. Do you often buy things for your elderly relatives/ friends?
   □ Yes □ No

4. What do you usually buy for your elderly relatives/ friends?
   □ Food products □ Health food products □ Household necessities
   □ Electronic gadgets □ Mobility aids

5. How often do you buy things for them?
   □ Once a week □ Once a month □ Once every 3 months
   □ Once every 6 months □ Once a year

6. Please prioritise the reasons you consider when buying products for them from 1-5 (1 being the most important reason)

Reason	Score (1-5)
Cheap price	
Discounts	
Favourable rewards from credit card or loyalty programme	
Needs of the elderly	
Comments from friends about the product	

7. Have you visited Sogo in the recent 3 months
   □ Yes □ No

8. Which Sogo have you visited in the recent year?
   □ Tsim Sha Tsui Sogo □ Causeway Bay Sogo □ Both

9. What kind of products do you mostly purchase from SOGO?

   □ Jewelry, watches and accessories □ Home Appliances □ Beddings
   □ Cosmetics(service and products) □ Men's fashion □ Ladies' fashion
   □ Kid's fashion □ Sports products □ Shoes □ Aiding equipments
   □ Food products(excluding health products) □ Health products □ Electronic Gadgets

10. How did you know about SOGO?
    □ Family and friends □ TV advertisements □ Internet □ Facebook

□ Instagram □ Newspaper □ Leaflets and flyers □ Bus advertisements
□ MTR advertisements

11. Which is the most important reason you prefer visiting other department stores than SOGO?
□ Cheaper prices □ More variety of products □ More convenient
□ More favourable rewards from membership programmes □ Driven by advertisements
□ More comfortable shopping experience □ Being socially responsible

12. What do you think is important that a good department store should provide?

Factor	Score (1-5)
Large variety of products	
Favourable rewards received from loyalty programs and credit cards	
Being socially responsible	
Convenient location	
Discounts	

13. Would you rather shop physically or through online platform?
□ Shopping physically □ Online shopping

14. What kind of product do you mostly purchase online?
□ Jewelry, watches and accessories □ Home Appliances □ Beddings
□ Cosmetics(service and products) □ Men's fashion □ Ladies' fashion
□ Kid's fashion □ Sports □ Shoes □ Food products □ Daily necessities

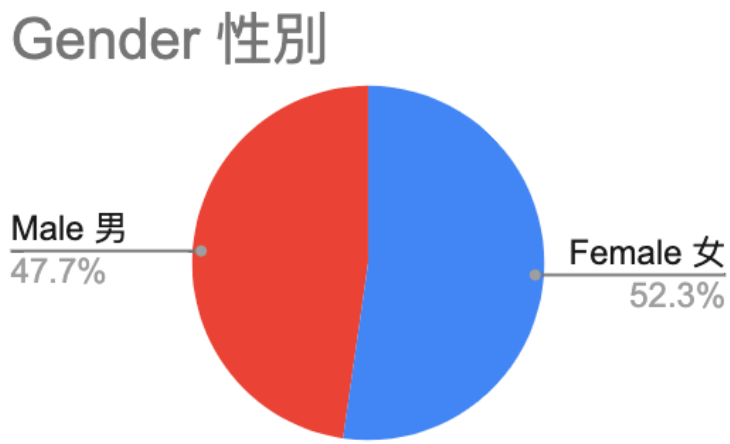
15. What do you think the SOGO online shopping platform currently lacks?
□ Limited variety of products □ Unattractive delivery offer

This is the end of the questionnaire. Thank you.
Have a nice day!

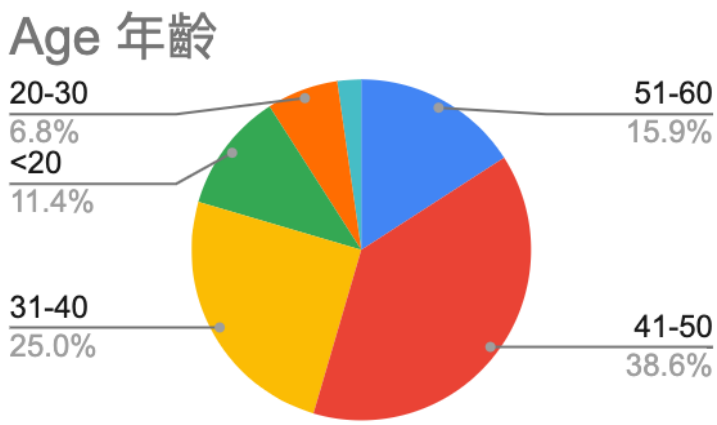
SOGO HONG KONG
Lifestyle International Holdings Ltd. 利福國際集團有限公司

Questionnaire results
Total number of interviewees: 44

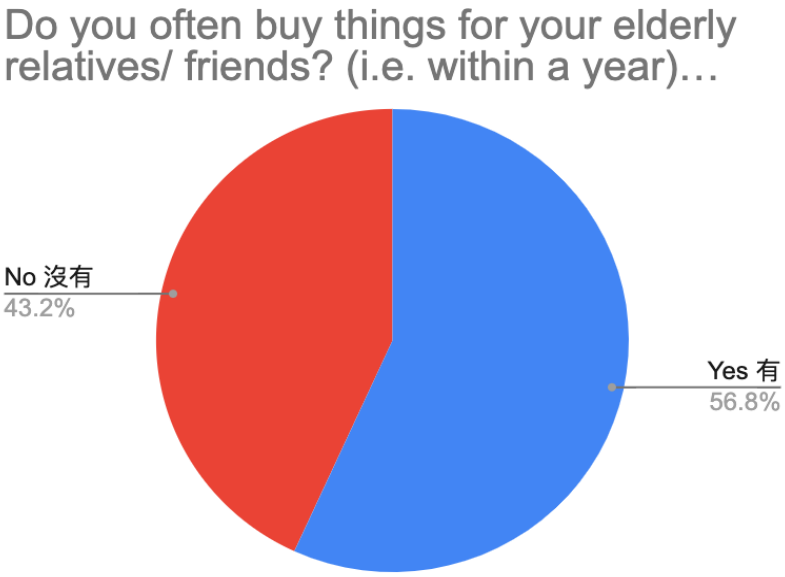
Gender



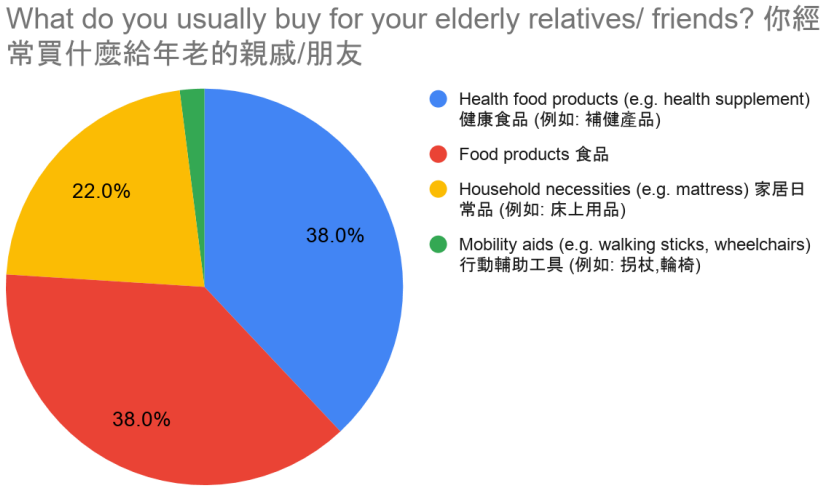
Age



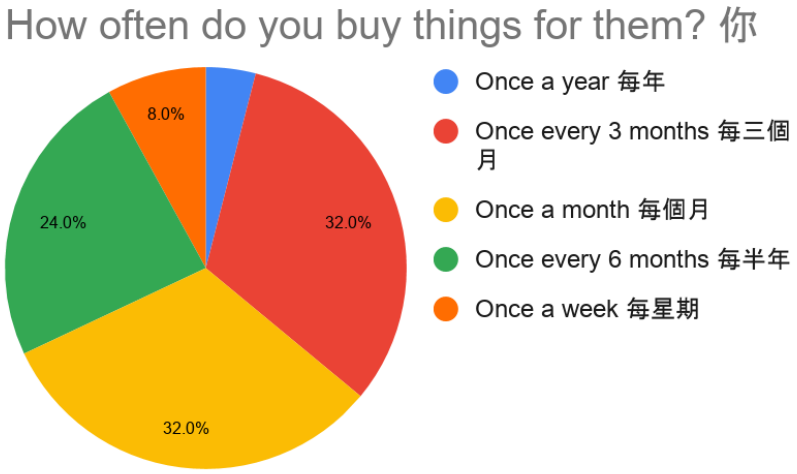
Do you often buy things for your elderly relatives/ friends? (i.e. within a year)



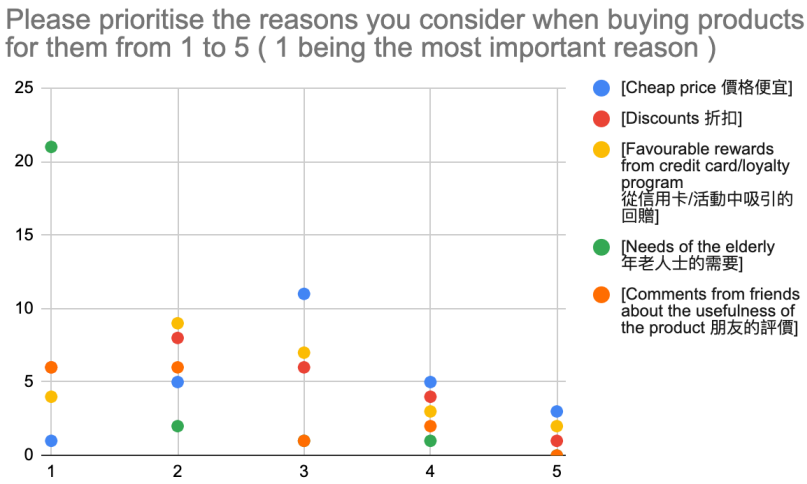
What do you usually buy for your elderly relatives/ friends?



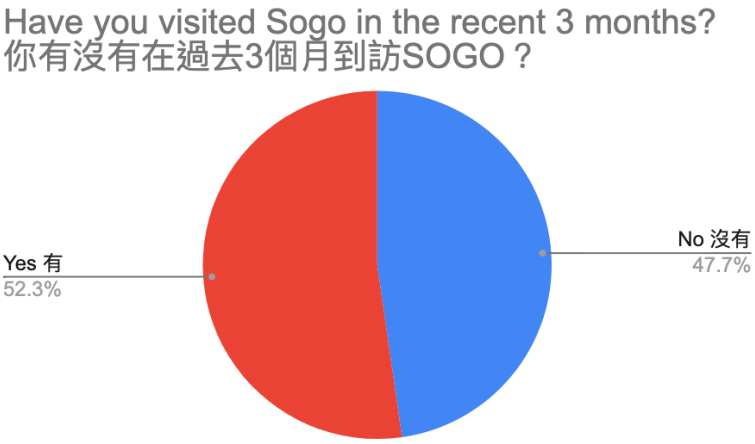
How often do you buy things for them?



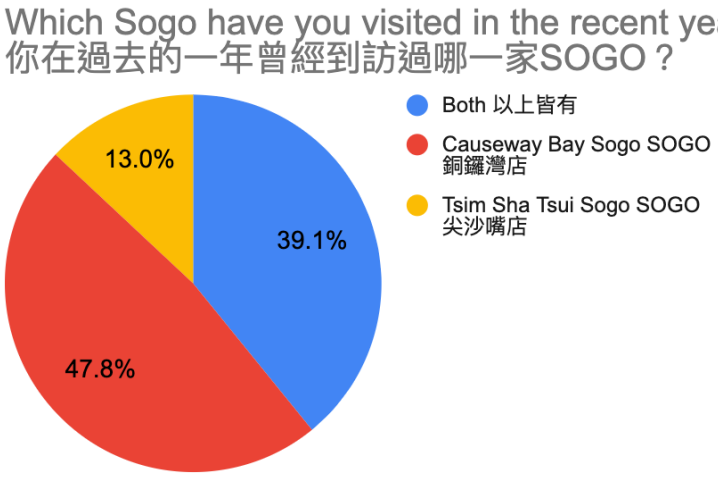
Please prioritise the reasons you consider when buying products for them from 1 to 5 (1 being the most important reason)



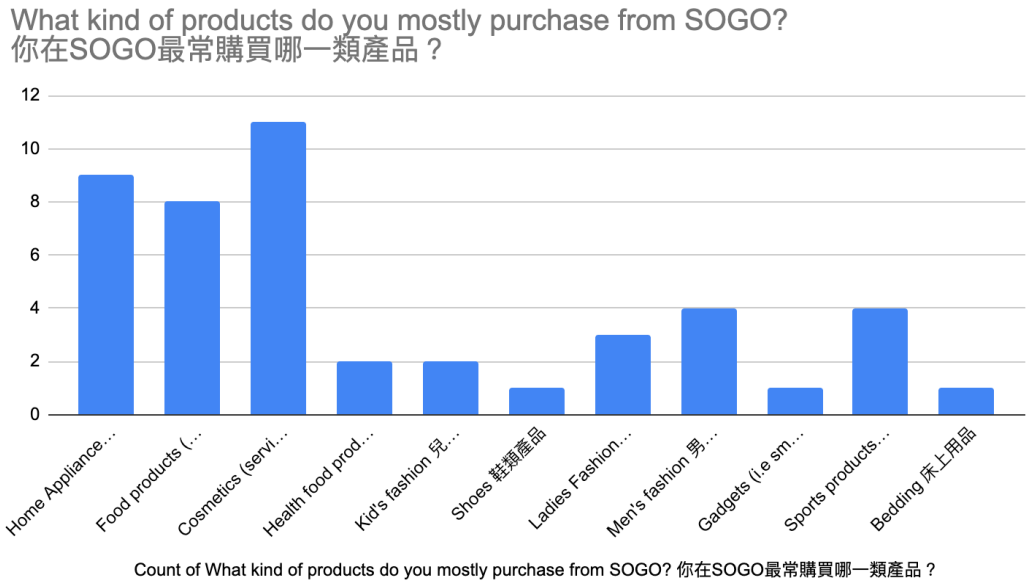
Have you visited Sogo in the recent 3 months?



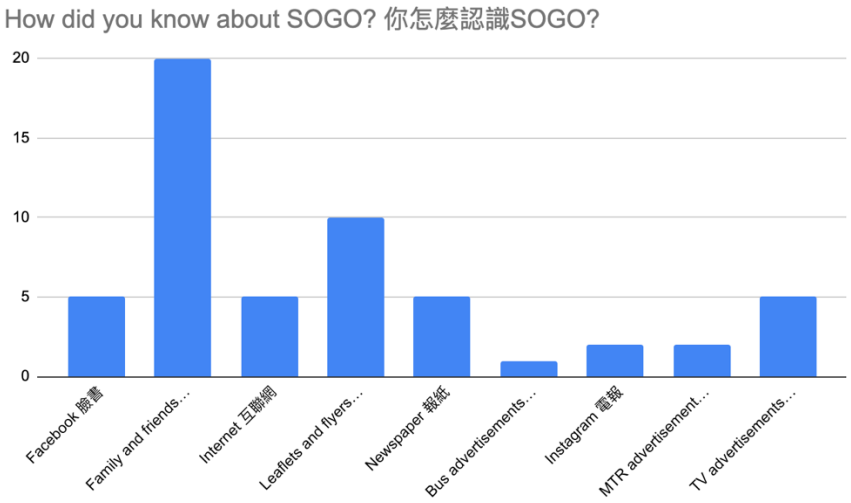
Which Sogo have you visited in the recent year?



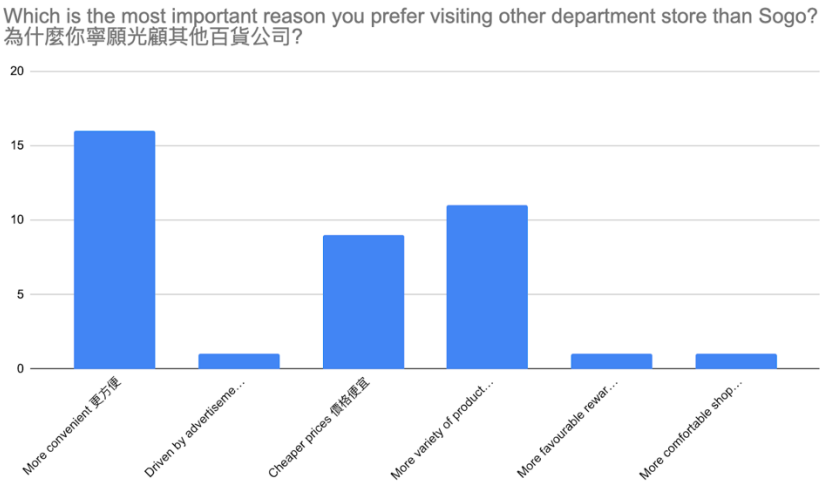
What kind of products do you mostly purchase from SOGO?



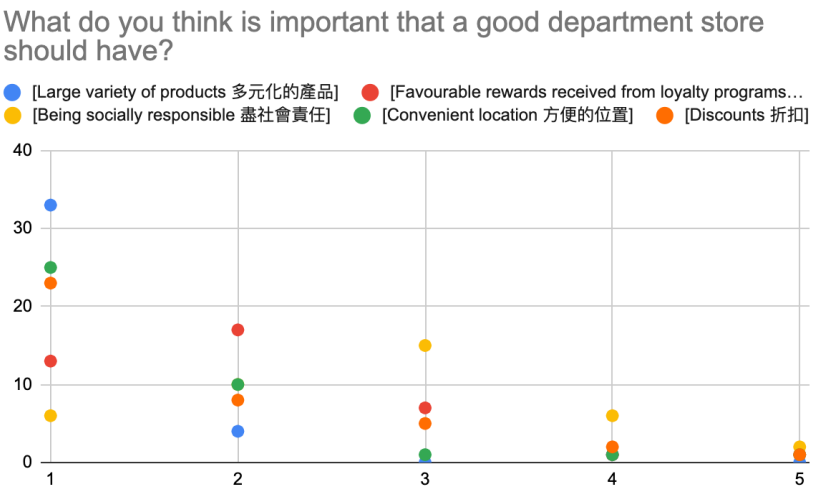
How did you know about SOGO?



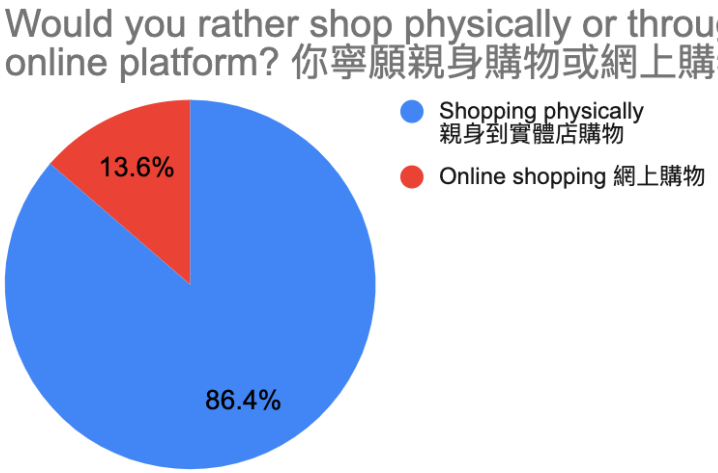
Which is the most important reason you prefer visiting other department store than Sogo?

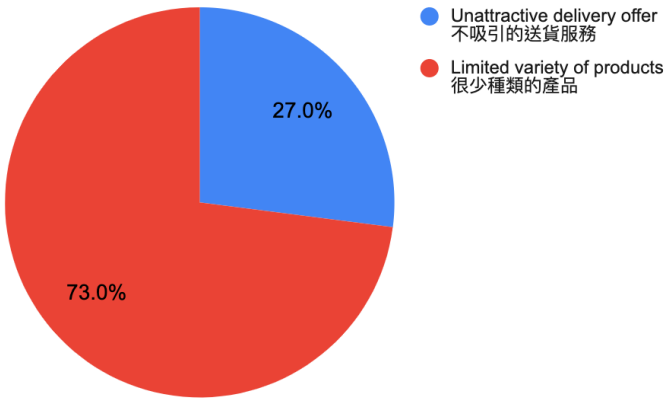


What do you think is important that a good department store should have?



Would you rather shop physically or through online platform?



What kind of products do you mostly purchase online?

What do you think the SOGO online shopping platform currently lacks?