

EMAIL

From: Ali Fisk
To: Stockard Matelier
Subject: FDM Limited: Draft management accounts and business issues
Date: 8 November 2023

We have just received the latest management accounts from Jai Williamson. Jai would like us to carry out a review of FDM's performance. We also need to address some business issues facing FDM. I am attaching the following:

- A note from Jai Williamson on FDM's management accounts and a request for advice (**Exhibit 16**)
- FDM's draft management accounts for the year ended 30 September 2023 (**Exhibit 17**)
- An email from Jerzel Morales to me regarding Bed Operations Limited (BOL) (**Exhibit 18a**), together with media coverage and extracts from BOL's financial statements (**Exhibit 18b/18c**)
- An email from Brienne Saffire to me about FDM's growth strategy (**Exhibit 19a**), together with an internal document (**Exhibit 19b**) and media coverage (**Exhibit 19c**)

Please draft for my review a report addressed to the FDM board. The report should comprise the following.

1. A review of FDM's performance for the year ended 30 September 2023 in comparison with the year ended 30 September 2022. It should cover:
 - revenue for each client size and in total
 - gross profit for each client size and in total
 - operating profit in total.

Use the management accounts set out in **Exhibit 17**, incorporating as appropriate the additional information in **Exhibit 16** and FDM's KPIs.

You should also respond to FDM's request for advice (**Exhibit 16**).

Based on your analysis, conclude on FDM's performance for the year ended 30 September 2023 and make appropriate recommendations for improving the business.

2. An evaluation of the proposal for FDM to provide digital marketing services to BOL, as set out in **Exhibit 18a**.
 - For each of Alternative A and Alternative B:
 - Calculate FDM's expected annual revenue and gross profit.
 - Calculate the potential lifetime value.
 - Evaluate the estimates and assumptions.
 - Identify and evaluate commercial considerations and risks, including any arising from **Exhibits 18b and 18c**.
 - Recommend, with reasons, which of the two alternatives FDM should propose.

3. An evaluation of FDM's growth strategy, as set out in **Exhibit 19a**.
 - Calculate FDM's expected revenue and gross profit for the year ended 30 September 2024 on two bases: (a) FDM pursues a recruit for growth strategy; and (b) FDM pursues a technology-driven growth strategy.
 - Explain and evaluate the strategic, operational and financial issues that FDM should take into account when deciding which strategy to pursue. Incorporate any ethical and business trust aspects.
 - Provide a justified recommendation as to which strategy FDM should pursue.

SAMPLE NOT FOR USE

APPENDIX 1: Analysis of Management Accounts

	2023	2022	Change (£k)	Change (%)
REVENUE				
Major	£2,662	£2,068	£594	28.7%
Large	£2,617	£2,068	£549	26.5%
Medium	£2,757	£1,985	£772	38.9%
Small	£2,953	£2,151	£802	37.3%
TOTAL	£10,989	£8,272	£2,717	32.8%
Mix				
Major	24.2%	25.0%	-0.8%	
Large	23.8%	25.0%	-1.2%	
Medium	25.1%	24.0%	1.1%	
Small	26.9%	26.0%	0.9%	
Headcount	117	85	32	37.6%
Billable	102	72	30	41.7%
Support	15	13	2	15.4%
AMFIH	£7.8	£8.1	-£0.3	-3.5%
Attrition rate (9/85)	10.6%	11.8%	-1.2%	
Left	9	8	1	12.2%
Attrition rate: revised (16/85)	18.8%	26.5%	-7.7%	
Joined and left	7	10	-3	-30.0%
Total left	16	18	-2	-11.2%

Review of Financial Performance for Year Ended 30 September 2023

REVENUE

Overall revenue increased impressively by £2,717k (32.8%) to £10,989k which is below the target of 35%/£11,167k but above the market CAGR which is around 10%. AMFIH was £7.8k (3.5% decrease) which is below the target of £8.1k and the previous peak of £8.9k, whereas headcount of 117 (37.6% increase) is above the target of 115 which shows that the revenue target not being achieved was due to AMFIH. Staff capacity is an enabler of revenue growth, therefore the higher headcount leaves FDM well placed for future growth. The fragile economy may have had a negative impact, so the fact that the rate of growth is increasing (2022: 22.4%) is excellent. Revenue from all client sizes has increased. Many businesses have shifted towards a digital model due to the impact of COVID-19 and this has increased demand for digital marketing. Churn has decreased to 8.9% from 15.2%.

Major account revenue increased substantially by £594k (28.7%) but is below the target of £2,792k due to new client wins being offset by losses due to some clients not being happy with more junior staff on the team. Revenue from AI-Reach (£172k) is expected to be higher than the typical average (£150k). Churn has increased to 21.4% from 8.3% due to clients not being happy with the staff changes. Churn can be erratic because MNCs have low switching costs and there are a small number of clients in this category.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

GROSS PROFIT

[REDACTED]

[REDACTED]

[REDACTED]

REQUIREMENT 1 – Review of FDM financial performance and request for advice

ASSIMILATING & USING INFORMATION	STRUCTURING PROBLEMS & SOLUTIONS
<p>Appendix 1</p> <p>(A) Analysis of staff KPIs eg headcount increase, attrition</p> <p>(B) Analysis of client churn %</p> <p>(C) Analysis of costs</p>	<p>Financial analysis: Revenue (report)</p> <p>(A) Major: up £594k / 28.7%</p> <p>(B) Large up £549k / 26.5%</p> <p>(C) Medium: up £772k / 38.9%</p> <p>(D) Small: up £802k / 37.3%</p> <p>(E) AMFIH: down £7.8k v £8.1k</p> <p>(F) Mix: Major 24.2% v 25.0% / Large 23.8% v 25.0% / Medium 25.1% v 24.0% / Small 26.9% v 26.0%</p>
<p>AI/CS Exam info (report/appendix)</p> <p>(A) Overall revenue: up £2,717k / 32.8%</p> <p>(B) Overall COS: up £1,576k / 31.3%</p> <p>(C) Overall GP: up £1,141k / 35.2% / GP%: 39.8% v 39.1%</p> <p>(D) Admin: up £279k / 30.7%</p> <p>(E) OP: up £862k / 37.0% / OP% 29.0% v 28.2%</p>	<p>Financial analysis: GP/OP (report)</p> <p>(A) Major: GP up £186k/31.6% / GP% 29.1% v 28.5% ></p> <p>(B) Large: GP up £200k/27.6% / GP% 35.3% v 35.0% ></p> <p>(C) Medium: GP up £233k/27.3% / GP% 39.4% v 43.0% ></p> <p>(D) Small: GP up £522k/48.8% / GP% 53.9% v 49.7% ></p> <p>(E) Billable: up £1,482k/45.2% OR Other: up £94k/5.4%</p> <p>(F) Admin: up £279k / 30.7% ></p>
<p>Business issues / wider context</p> <p>(A) Impact of COVID-19 on business / fragile economy / growth in online activity</p> <p>(B) Industry averages: CAGR growth >10%</p> <p>(C) Attrition: down 10.6% v 11.8% / 18.8% v 26.5% / below target</p> <p>(D) Headcount: up total 117 v 85 / 37.6% / above target</p>	<p>Request for advice (report)</p> <p>(A) Reduced rental expense will increase OP ></p> <p>(B) Support staff expense impacts OP ></p> <p>(C) Payment in advance is deferred income / no OP impact ></p> <p>(D) Lower depr will increase OP ></p> <p>(E) Higher AMFIH will help increase OP ></p> <p>(F) Bonus will reduce OP ></p>

APPLYING JUDGEMENT	CONCLUSIONS AND RECOMMENDATIONS
<p>Evaluation of revenue analysis</p> <p>(A) Total revenue: faster growth 32.8% than last year 22.4% / under target of 35%/£11,167k / above 10% industry CAGR</p> <p>(B) Major/large: higher churn with fig / new client > average / junior staff</p> <p>(C) Small/medium: cross-selling / performance-based fees / lower churn with fig / Compere</p> <p>(D) Major/large: below target Small/medium: above target OR</p> <p>(E) Growth due to headcount / headcount above target / AMFIH below target / recruiting ahead of revenue</p> <p>(F) Client losses compensated with new clients / mix deviated from target</p>	<p>Draws conclusions (under a heading)</p> <p>(A) Qualitative comment on total revenue with fig</p> <p>(B) Qualitative comment on COS/GP/GP% with fig</p> <p>(C) Qualitative comment on admin/OP/OP% with fig</p> <p>(D) Qualitative comment on advice request</p>
<p>Evaluation of GP/OP analysis</p> <p>(A) Change in COS compared to change in revenue / GP%: client mix impact/lower AMFIH</p> <p>(B) Major/large: junior staff lower cost</p> <p>(C) Medium: unsuccessful campaigns / performance-based high risk</p> <p>(D) Small: higher GP% paid search mgt/performance-based pricing</p> <p>(E) Billable: avg. cost with fig Other: recruitment up/fixed cost element OR</p> <p>(F) OP% below 30% target</p>	<p>Makes recommendations</p> <p>(A) Analyse revenue/GP by client</p> <p>(B) Clients: rebalance mix / win back lost clients</p> <p>(C) Focus on improving AMFIH / slow headcount growth</p> <p>(D) Pricing changes eg performance-based / charge rates</p> <p>(E) Cross-sell more paid ad mgt / higher value services</p> <p>(F) Other commercial recommendations</p>
<p>Evaluation on request for advice</p> <p>(A) Identify required space / consult staff / find alternative offices</p> <p>(B) Support staff facilitate billable work / support staff have lower cost / increases billable staff workload / forecast workloads</p> <p>(C) Will reduce OP as discount results in lower revenue</p> <p>(D) May be unacceptable to staff / depr' impact will take time</p> <p>(E) Will increase pressure on staff / target must be achievable</p> <p>(F) Forecast overall impact on OP (higher AMFIH and bonus)</p>	