CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CPA Common Final Examination

BOARD OF EXAMINERS' REPORT

PART B — The Day 1 Report

September 2023 and September 2024 Examinations

CPA EVALUATIONS

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See Part A for full report on the September 2024 Day 2 and Day 3 simulations and marking guides.

THE BOARD OF EXAMINERS' REPORT ON THE SEPTEMBER 2024 COMMON FINAL EXAMINATION

Objectives of the report

The objective of this report is to explain the Common Final Examination (CFE) process and to assist the profession in improving the performance of candidates on the CFE.

The report sets out the responsibilities of the Board of Examiners, the methods used for guide setting and marking the CFE, and the results of the marking process. The report also includes recommendations to candidates from the Board of Examiners.

The September 2024 CFE Report is presented in two parts: Part A is the Day 2 and Day 3 report and Part B is the Day 1 report.

The appendices provide more detailed information on the design, guide setting, and marking of the CFE, as well as the board's expectations of candidates on the simulations. Readers are cautioned that the marking guides were developed for the entry-level candidate and that, therefore, all the complexities of a real-life situation may not be fully reflected in the content. The CFE report is not an authoritative source of GAAP.

RESPONSIBILITIES OF THE BOARD OF EXAMINERS

The Board of Examiners (BOE or the board) comprises a chair, two vice-chairs, and sixteen members appointed by the provincial bodies.

The board's responsibilities, as set out in its terms of reference, include the following:

- Setting the CFE in accordance with the *CPA Competency Map* (the *Map*) and other directions from the Professional Education Management Committee;

- Submitting the CFE and the marking guides to the provincial bodies for review;

- Marking the candidates' responses and recommending to the provincial bodies the pass or fail standing that should be given to each candidate; and

- Reporting annually on the CFE to various CPA committees and the provincial bodies, in such form and detail and at a time that is satisfactory to them.

The chair is responsible for the supervision of the evaluation process. A CFE subcommittee, made up of nine members of the board, is actively involved in the preparation of the CFE simulations, the preliminary marking guides, and the setting of the initial passing profile. The members of that subcommittee participate in the Preliminary Evaluation Centre where the marking guides are tested against candidate responses and finalized, and in the start-up of the marking centre. The BOE chair and vice-chair provide oversight throughout the entire marking process, consulting with subcommittee members as required. The full board is responsible for equating the difficulty of the examination to prior years' examinations and establishing the passing standard.

THE CFE

Preparation and Structure of the CFE

The board staff works in conjunction with authors to ensure that the simulations presented to the board achieve the overall intent and design objectives set by the board, while adhering to the competencies and proficiency levels specified in the *Map*.

The full board provides guidance as to the content and nature of simulations to be included on the examination. The CFE subcommittee reviews and refines the simulations that make up the three-paper evaluation set.

Nature of the Simulations

The CFE comprises a set of simulations which are both essential and effective in evaluating the candidates' readiness to enter the profession:

Day 1 – The first paper is a four-hour examination consisting of a single simulation that is linked to the Capstone 1 group case. There are two versions of the linked cases, unless special circumstances require that a third version be provided. Version 1 is linked to the most current Capstone case and is written by first time writers and by repeat writers who chose to attempt the new case rather than Version 2 of the previous Capstone case. Version 2 is written by repeat writers and candidates who deferred and are writing Version 2 as their first attempt. The versions of the exams are calibrated to ensure the difficulties of all versions are comparable. For the September 2024 CFE, a Version 1 and a Version 2 were offered. The Version 2 case relates to JRP, for which a Version 1 was offered in September 2023.

Day 2 – The second paper is a five-hour case, with four different roles and requirements. Additional information tailored to each role is provided in four separate appendices.

Day 3 – The third paper is a four-hour paper, consisting of three multi-competency area simulations.

Assessment Opportunities

The board applies competency-based marking procedures that enable it to decide which candidates demonstrate readiness to enter the profession.

Assessment Opportunities are designed to answer the question, "What would a competent CPA do in these circumstances?" To attain a pass standing, candidates must address the issues in the simulations that are considered significant.

Appendix A contains a comprehensive description of the evaluation process.

Marking Guides

Marking centre leaders and assistant leaders provide valuable input during the testing and setting of the marking guides, before live marking begins. The vice-chair, selected member(s) of the CFE subcommittee and senior evaluations staff hold meetings with the leaders and their assistants during both the guide-setting and the marking processes. See **Appendices B to F** for the JRP Day 1 simulations and related capstone case, JRP marking guides, and JRP sample responses. **Appendix G** contains the marking results by assessment opportunity, and **Appendix H** contains the BOE comments. A copy of the Day 1 V1 (API), Day 2 and Day 3 simulations can be found in **Part A** of the CFE Report.

Day 1 – The marking guide is designed to assess the candidate on the stages of the CPA Way: 1) situational analysis; 2) analysis of the major issues; 3) conclusions and advice; and 4) communication. Based on these four summative assessments, the candidate's response is then holistically judged to be either a passing or a failing response.

Day 2 and Day 3 – Marking guides are prepared for each simulation. Besides identifying the Assessment Opportunities, each marking guide includes carefully defined levels of performance to assist markers in evaluating a candidate's competence relative to the expectations set out by the board when developing the passing profile for a competent CPA.

Five categories of performance are given for each Assessment Opportunity. The candidate's performance must be ranked in one of the five categories:

- Not Addressed
- Nominal Competence
- Reaching Competence
- Competent
- Competent with Distinction

Setting the Passing Standard

The chair of the board and vice-chair in charge of the examination monitor the live marking. Near the completion of the marking process, the CFE subcommittee satisfies itself that the markers applied the marking guides as intended by the board.

In determining which candidates pass the CFE, a candidate is judged in relation to the board's pre-established expectations of an entry-level chartered professional accountant. Any changes to the initial passing profile that were made throughout guide-setting and the marking centre are ratified by the full board. In setting the passing profile, the board considers the following:

- The competency area requirements described in the *Map*
- The level of difficulty of each simulation (set using a scale: Easy, Easy to Average, Average, Average to Hard, or Hard)
- The level of difficulty of each Assessment Opportunity (set using a scale: Easy, Easy to Average, Average, Average to Hard, or Hard)
- The design and application of the marking guides
- Comments from leaders and assistant leaders regarding any marking difficulties encountered or any time constraints noted
- Possible ambiguity of wording or of translation
- Input on critical decision factors from an independent board (i.e., those BOE members not on the CFE subcommittee and therefore not directly involved) who review the fair pass package

The Decision Model

The purpose of the CFE is to assess whether candidates possess the competencies required of an entry-level CPA through a written evaluation that is common to all CPAs. Each day of the CFE is unique and is designed specifically to assess different skills:

➢ Day 1 is linked to the Capstone 1 group case work. It assesses the candidates' ability to demonstrate professional skills. It is independent from Day 2 and Day 3.

- Day 2 assesses technical **depth** in one of four unique roles (that reflect the four CPA Elective choices) and also provides **depth** and **breadth test** opportunities in the common core competency areas of Financial Reporting and/or Management Accounting. Candidates pre-select one role and respond from that role's perspective.

- Day 3 supplements the **depth** and **breadth** tests in the common core areas of Financial Reporting and/or Management Accounting, and also provides **breadth** test opportunities for all other common core competency areas.

Candidates must pass all three days in order to qualify for entry to the profession. Those seeking licensure must obtain depth in Financial Reporting and in the Assurance Role.

Day 1

Day 1 is assessed independently from Day 2 and Day 3. A pass or fail decision is made based on a holistic assessment of the candidates' performance in applying the CPA Way to demonstrate essential professional skills.

Day 2 and Day 3

The decision model used by the board is presented in Exhibit I. Four key decision points, or levels, are applied in reaching a pass or fail decision, as follows:

1. The response must be **sufficient**; i.e., the candidate must demonstrate competence on the Assessment Opportunities presented on Day 2 and Day 3 (Level 1).

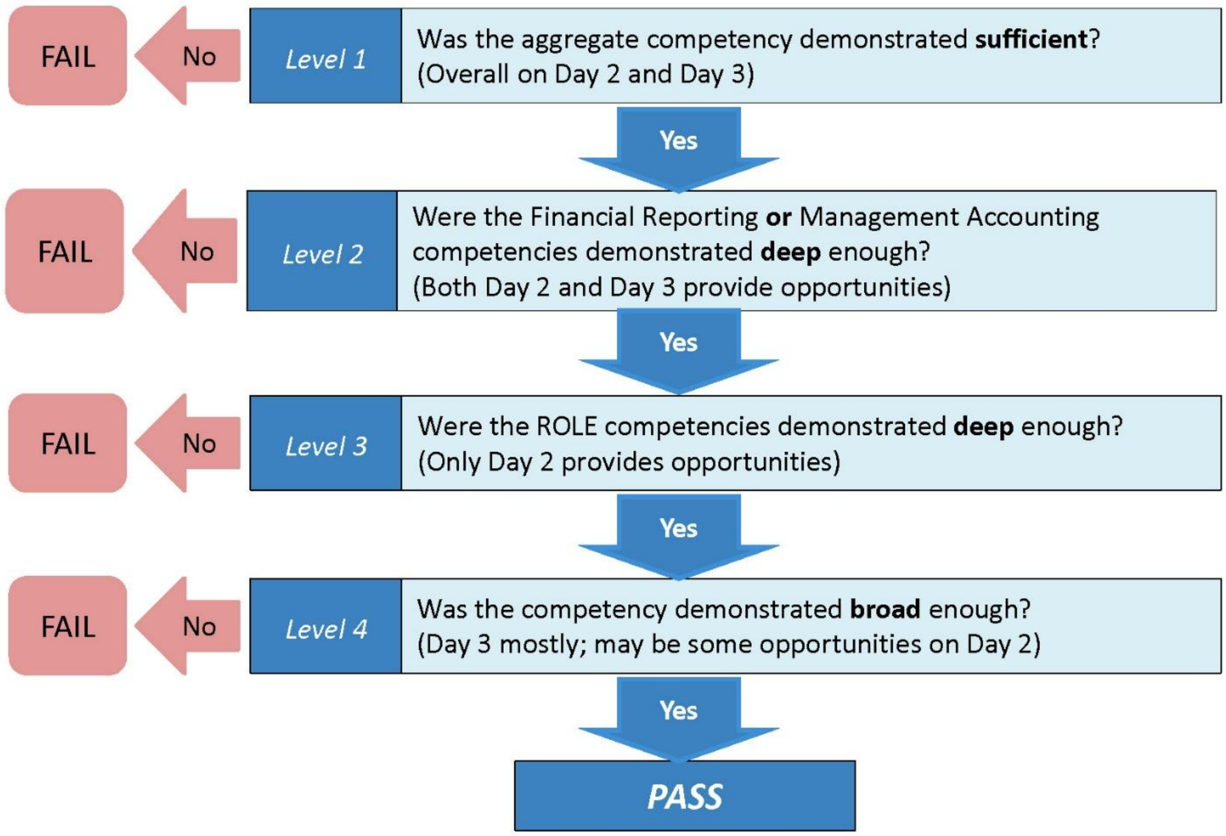
2. The response must demonstrate **depth** in the common core area of Financial Reporting or Management Accounting (Level 2).

3. The response must demonstrate **depth** in the pre-selected elective role (Level 3).

4. The response must demonstrate **breadth** across all competency areas of the *Map*, at a core level, by not having avoided a particular technical competency area (Level 4).

The BOE is responsible for equating the results from one examination to another to ensure that candidates have an equal chance of passing whichever examination they write. The BOE uses the factors listed above under setting the passing standard, in order to equate the examinations.

EXHIBIT I
DAY 2 AND DAY 3 PASS/FAIL ASSESSMENT MODEL



Approving the Results

The CFE subcommittee reviews and approves the marking results for each simulation. Day 1 is assessed separately from Day 2 and Day 3.

Day 1 – The CFE subcommittee discusses the profiles for both the marginally passing and the marginally failing candidates to confirm the board's pre-established passing profile has been appropriately applied by the markers.

Day 2 and Day 3 – As part of the development process, the CFE subcommittee sets preliminary requirements for the three levels (tests of depth and breadth) being assessed on the Day 2 and Day 3 simulations. After the marking is completed, the board reviews and finalizes those requirements. The board establishes the Level 1 (sufficiency) requirement for the combined Day 2 and Day 3 simulations.

During the approval process, the board continues to consider whether the results could be affected by any inconsistency in the evaluation or the board's processes.

Reporting

In reaching its decision, the board determines which candidates pass on a national basis only, without regard to provincial origin or language. Similarly, the detailed comments are based on analyses of the performance of all candidates.

The board reports the following information by candidate number:

- Overall pass/fail standing and pass/fail standing for each of Day 1 and of Day 2 and Day 3 combined.
- A pass/fail standing for Day 1.
- A pass/fail standing for Level 1, Sufficiency. A decile ranking is provided for failing candidates.
- A pass/fail standing for Level 2, Depth in Financial Reporting and/or Management Accounting.
- A pass/fail standing for Level 3, Depth in Role.
- A pass/fail standing for Level 4, Breadth in all technical competency areas.

Thank You

All board members wish to express their warm and sincere appreciation for the outstanding energy, support, and commitment of the Board of Examiners staff members whose dedication and talent contributed in large measure to the achievement of our objectives and the fulfilment of our responsibilities.

We also wish to acknowledge the contributions made by the provincial reviewers, markers, authors, translators, and editors. The commitment, energy, and skill demonstrated by all the markers were outstanding, resulting in the sound application of marking procedures and producing an appropriate evaluation of the candidates. Everyone's commitment to the quality and fairness of the process is appreciated.

Jonathan Vandal, CPA
Chair
Board of Examiners

A MESSAGE TO CANDIDATES

To attain a pass standing, candidates needed to achieve a "Pass" on Day 1, and on Day 2 and Day 3 combined, demonstrate sufficient competence in all areas and meet the two depth standards and the breadth standards.

Introduction

The September 2024 CFE Report, Part A and Part B combined, presents detailed information on all candidates' performance for all the examination cases, except for the Day 1 linked case, API Version 1. Detailed commentary on the performance of candidates on the API cases (Version 1 and Version 2) will only be available after API Version 2 is written in September 2025. The simulations, marking guides, marking results, and Board of Examiners' (BOE) comments on the Day 2/Day 3 portion of the examination are found in Part A of the CFE Report. Similar information on Day 1 JRP simulations (Version 1 and Version 2) can be found in Part B of the CFE Report.

The intent of this message from the BOE is to help candidates improve their performance on future CFEs by drawing their attention to the most common detracting characteristics observed in candidate responses to the September 2024 CFE. The BOE's comments are based on the feedback of the marking teams, who see the entire candidate population, and reflect the broad themes noted by the markers that apply to all candidates who wrote this sitting of the CFE. More detailed AO-by-AO commentary on candidates' performance can be found in the BOE's comments in Appendix F of Part A, or Appendix H of Part B, of the CFE Report.

Nature of the CFE

The design of the CFE is such that each day of the examination allows candidates to demonstrate a different skill set. Day 1 allows candidates to demonstrate their high-level professional skills, such as analysis that is relevant and critical to strategic decision-making, professional judgment, and ability to synthesize information. Day 2 allows candidates to demonstrate their technical competence in the common Financial Reporting and Management Accounting competencies and in their chosen role, which is tied to one of the four elective areas. Day 2 typically, but not always, directs candidates to the work to be done and is not designed to be time constrained, allowing candidates to demonstrate depth. Day 3 allows candidates to further demonstrate depth and breadth in the common Financial Reporting and Management Accounting competencies, and provides multiple opportunities to demonstrate breadth in all the other core technical competency areas. Day 3 is typically time constrained, requiring candidates to prioritize the issues and manage the amount of time spent on each issue.

Both Day 2 and Day 3 require candidates to integrate the information found in the simulation in order to demonstrate competence. All three days require candidates to clearly communicate their thought process.

Strengths and Weaknesses

Time management

Overall, candidates demonstrated good time management skills. The Day 1 simulation was not time constrained in any way and, generally, the amount of time that candidates devoted to their situational analysis and their issue analysis was appropriate. Most candidates were able to address all the strategic alternatives presented, spending more time on the alternatives that required more analysis and discussion. The Day 2 simulation was also not time constrained, and most candidates managed their time appropriately on Day 2, attempting all the AOs and appropriately balancing their time between the common section and the role section. On Day 3, which is designed to be time constrained and required time management on the part of the candidates to ensure that all three simulations were completed within the four hours allotted, candidates seemed to be able to plan their time accordingly.

Unrelated discussions

The BOE was pleased to see that there were relatively few unrelated discussions on this exam. Candidates addressed the requireds and generally did not provide any analysis that was not necessary.

Technical ability

The pattern the BOE has seen for the past few CFEs has continued, with candidates generally avoiding or struggling with the complex topics. Candidates appeared to be more comfortable with the more common, straight-forward technical topics that were tested at the Core level.

Candidates generally performed well on these AOs: Day 2, Common, AO#2 (Lease), AO#4 (Cash budget), and AO#6 (Café pilot project); Day 2, Assurance role, AO#10 (Procedures — accounting issues); Day 2, Finance role, AO#7 (Capitalized earnings valuation) and AO#8 (Financing); Day 2, Performance Management role, AO#8 (Focus on online segment); Day 2, Taxation role, AO#7 (CCA), AO#8 (Taxable income, quantitative), and AO#11 (Employee benefits); Day 3, Simulation 1, AO#2 (Federal corporate taxes payable), AO#3 (Algorithm licensing agreement risks), AO#4 (Financing options), AO#5 (Intangible assets — algorithm), and AO#7 (CEO strategic fit); Day 3, Simulation 2, AO#1 (Revenue recognition) and AO#5 (Investment options); and Day 3, Simulation 3, AO#2 (Strategic fit of current operations), AO#4 (GST system and compliance), and AO#5 (Audit plan). Many of these AOs contained topics that are regularly tested on the CFE.

However, on certain of the remaining AOs, particularly on the Day 2 role AOs that are tested at the Elective level, there was more variability in the quality of the responses, with some candidates demonstrating a very poor understanding of the required technical knowledge. For example, on Day 2, Assurance role, AO#13 (MD&A), candidates seemed to struggle to provide commentary that aligned with the auditor's role and responsibilities in relation to the MD&A. On Day 2, Finance role, AO#11 (Lease-versus-buy NPV), many candidates did not perform an NPV and only looked at the total or first-year costs. On Day 2, Finance role, AO#13 (Distribution alternatives), candidates provided generic discussions and often focused on only one specific issue, demonstrating a lack of understanding of alternatives presented. On Day 2, Performance Management role, AO#7 (Divisional income statement), candidates often allocated the expenses, but their allocations did not sum up to the total expenditures. On Day 2, Performance Management role, AO#11 (Membership program), candidates typically missed the gross margin on additional sales of books and magazines and incorrectly determined the costs associated with running the program. On Day 2, Taxation role, AO#13 (GST/HST), candidates demonstrated weak technical knowledge of the GST/HST concepts related to employee benefits.

Candidates should expect to see a variety of issues of varying difficulty. The BOE encourages candidates to be balanced in studying and ensure they have a sufficient level of technical knowledge in all competency areas outlined in the CPA Competency Map, at the level it is expected to be tested at (i.e., Core or Elective). The BOE would also like to remind candidates that the expectations differ on the Day 2 role AOs, which are tested at the Elective proficiency level. These expectations are higher than those of the remaining AOs on the exam, which are tested at the Core proficiency level. Given that all roles are equated, the BOE strongly encourages candidates to select their Day 2 role carefully and to consider their ability to respond to that competency area at the Elective proficiency level.

<u>Failure to consider the specific context of the simulations and integrate the information provided</u>

Consistent with previous CFEs, and the main weakness noted by the BOE on this sitting, candidates on the September 2024 exam seemed to struggle with applying the specific context of the simulation to their response and integrating the information provided to them. For example, on Day 2, Common, AO#1 (Business combination), candidates typically only used the case fact of 100% ownership to discuss whether a business had been acquired, neglecting other case facts that could have been used in the analysis. On Day 2, Common, AO#3 (Lawsuit), many candidates did not discuss the conditions that existed after year end, even though there were clear case facts describing the situation. On Day 2, Assurance role, AO#7 (RSU plan), candidates recognized the correct Handbook section to use but struggled to apply the guidance to IBL's specific situation. On Day 2, Assurance role, AO#9 (Planning analytic), candidates calculated the variances but could not use case facts to analyze them appropriately. On Day 2, Performance Management role, AO#12 (Online segment incentive compensation plan), candidates were unable to apply a case-specific formula using specific case facts for the bonus calculation. On Day 2, Taxation role, AO#12 (Shareholder loans), candidates struggled to recognize specific case facts that differentiated the different loans. On Day 3, Simulation 1, AO#1 (Budget variance), candidates calculated the variances but had difficulty applying case facts to quantify the reasons for the variances. On Day 3, Simulation 2, AO#4 (Control weaknesses), candidates struggled to identify specific weaknesses within the process description provided, often not understanding the actual weaknesses presented.

The BOE emphasizes that the ability to adapt to unique scenarios and to integrate information from various parts of the case are important skills for an entry-level CPA. Candidates should ensure they have a good understanding of the specific context for any requests before addressing them and that any analyses performed incorporate elements specific to the case presented.

For more detailed commentary, see Appendix F of Part A of the CFE Report.

Additional Comments Specific to Day 1 — API (Version 1)

Most candidates dedicated the first section of their response to a relevant situational analysis. Most used this information later in their response, making relevant links back to the company's global situation when analyzing the specific strategic alternatives that were presented, and within their conclusion. However, the links that weak candidates made were typically to the more obvious case facts related to API's key success factors, mission, and vision, rather than to the more important factors, such as the decline in performance of API's two largest parks or the divergent preferences of young adults and API's most loyal customer demographic, parents with young families.

In the simulation, API had a $9 million loan repayment that was due within five months. In addition, API only had $1 million of cash on hand and no access to further debt financing. Given this significant financing constraint, candidates were expected to discuss how API could approach repaying the loan. In addition, API's main objectives were to increase the company's operating income, increase the number of visitors to API's parks and attractions, and make investments with the highest growth potential. Candidates were expected to integrate the critical elements of the company's broader situation and objectives within their qualitative and quantitative analyses of each strategic alternative.

There were four strategic alternatives to be analyzed in this case: whether to sell Magical Land to a Vancouver land developer, Beacon Builders; whether to enter into a licensing agreement with a well-known movie producer, Pioneer Pictures; whether to sign a leasing agreement with Pixel and open an arcade at Magical Land; and whether to develop a new Great Bear VR experience or sell the existing Arctic VR experience.

Within the analysis of the major issues, three main factors differentiated strong responses from weak responses. First, a strong response identified and provided an in-depth discussion on the most important decision factors for each issue. Weak candidates tended to list case facts, often failing to explain why those elements were important and how they affected the decision-making process. Second, strong candidates provided valuable quantitative analyses to help support their recommendations (such as by linking their calculations to the stated objectives of API). On the other hand, many weak candidates' quantitative analyses were unstructured and unclear and, therefore, challenging to follow. Many weak candidates also failed to perform the correct calculation to adequately assess each issue. These candidates often struggled to explain how the results of their quantitative analyses affected the decision at hand. Third, strong candidates routinely linked their analysis of each alternative to the prevalent entity-level issues presented in the case: the upcoming loan repayment, API's objectives, and the important considerations in the overall environment, such as the different demographics. Strong candidates incorporated these aspects into their discussion of each strategic alternative, whereas weak candidates either missed making these links altogether or provided a superficial discussion that failed to adequately highlight the significance of these aspects in relation to each of the strategic decisions that needed to be made. Strong candidates clearly outlined how API should address the upcoming loan repayment and then provided logical and supported recommendations, ensuring their proposals did not conflict with any mutually exclusive alternatives that API was considering.

Weak candidates tended to only perform an issue-by-issue analysis, without stepping back to consider the broader perspective and without integrating the key entity-level issues into their conclusions. As a result, they failed to make important links between the various aspects of each alternative, such as recommending that incompatible strategic alternatives be pursued together. Some weak candidates ignored the loan repayment entirely in their overall recommendation.

Most candidates approached their response in a coherent and organized fashion. Only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized approach to their response.

Additional Comments Specific to Day 1 — JRP (Version 2)

As with API Version 1, most candidates dedicated the first section of their JRP response to a relevant situational analysis. Most used this information later in their response, making relevant links back to the company’s global situation when analyzing the specific strategic issues that were presented, and within their conclusions.

One of the main situational factors to consider was the industry’s supply chain issue and the uncertainty surrounding it. In addition, given JRP’s continued decline over the past several years, the board’s objectives are to increase the company’s net income and to prevent the continued decline of the company’s existing pet stores. JRP only had $5 million of cash available for strategic investment, with no access to any further debt financing. Candidates were expected to integrate these critical elements of the company’s broader situation into their analysis of the major issues.

There were five strategic alternatives that candidates were expected to analyze both qualitatively and quantitatively: whether to invest in a manufacturing facility and produce JRP-branded dry dog food; whether to expand e-commerce operations and acquire three fulfilment centres across Canada; whether to acquire 20% of BWF, a small manufacturer of premium pet food; whether to sign a purchase agreement with Koda and begin to sell JRP-branded pet supplies; and whether to engage PSC and invest in the development of a custom mobile application.

Similar to responses to API Version 1, strong candidates recognized and discussed the most important decision factors for each issue, provided valuable quantitative analyses, and linked their analysis to the significant entity-level issues presented in the case. Strong candidates tended to consider the supply shortage throughout each of their issue-by-issue discussions and within their conclusions and overall recommendations. These candidates also recognized that there were interrelationships between the various strategic alternatives. For example, strong candidates recognized that it made sound strategic sense for the company to acquire 20% of BWF if it also decided to invest in the manufacturing facility, given the benefits that BWF would likely bring to that new aspect of JRP’s business.

One of the main differentiating factors between strong and weak candidates was the ability to identify and discuss in depth the most relevant aspects of each strategic alternative presented as part of their analysis. Weak candidates' analyses tended to focus on the minor implications. For example, for the e-commerce alternative, many weak candidates focused their analysis on the fact that e-commerce would make it a challenge for the company to provide its customers with strong customer service. While this is relevant, the more pertinent implication was that this compromise may be necessary to ensure JRP is keeping up with its competitors. Many weak candidates also did not step back and consider the entity-level issues within their analysis of the strategic alternatives.

As was the case with API Version 1, only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized approach to their response.

APPENDIX A

EXAMINATION DESIGN, MARKING GUIDE DEVELOPMENT, AND MARKING OF THE COMMON FINAL EXAMINATION

CFE Design

Day 1 is one four-hour case that is linked to the Capstone 1 case, which is worked on in groups for eight weeks prior to the CFE. When writing the Day 1 case, candidates are allowed access to their Capstone 1 case but not their group's answer or any sample response. The Day 1 case is designed to assess the enabling (professional) skills. Candidates are directed to target a "board room and senior management" level of discussion, with high-level analytics and a strategic focus. There are typically two versions of the Day 1 case. Candidates pre-select the version they will write.

Day 2 is one case designed to be completed by an average candidate in three and one half hours that candidates are given five hours to respond. The extra one and one half hour gives candidates time to filter and find the information that they need to answer *their* role requirements from within the common information presented. Day 2 is designed to assess the technical competencies in **depth** (Level 2 and Level 3). Candidates pre-select a role (Assurance, Finance, Performance Management, or Taxation). All candidates work with the same case — it has a common section and four sets of appendices containing additional information applicable to each of the four unique roles. The required tasks, regardless of the role, are clearly directed unless there is an undirected/enabling issue in the case that the board expects candidates to identify on their own. Day 2 evaluates the competencies listed in the *CPA Competency Map* mostly in the Elective area in **depth** and in common Financial Reporting and/or Management Accounting areas in **depth** and **breadth**. The role **depth** test (Level 2) may also include coverage of other competency areas from the common core.

Day 3 is a four-hour examination containing a mix of small cases that evaluate the common Core competencies only. While the minimum allowable time for any one case is 45 minutes and the maximum is 90 minutes, historically the cases have ranged between 60 to 90 minutes. The Day 3 cases provide additional opportunities for **depth** and **breadth** in Financial Reporting and Management Accounting and **breadth** opportunities for all the other technical competency areas. Cases are time constrained and are designed to cover different competency areas within each case. A higher level of integration and judgment is required on Day 3 of the CFE than in the Core modules, although the technical competencies are tested at the common core level of expectation.

The assessment opportunities on the Day 2 case are given mark values such that each of Day 2 and Day 3 is weighted equally.

The Development of Marking Guides and the Provincial Review Centre

Prior to the CFE being published, provincial reviewers, appointed by each region, meet to examine the simulations and the preliminary marking guides. The provincial reviewers' comments are then considered by the board when it finalizes the examination set and again when the leaders and assistant leaders review the marking guides in the context of actual responses at the Preliminary Evaluation Centre.

The September 2024 CFE Evaluation Centre

The September 2024 CFE Evaluation Centre was run with both in-person and remote components. Approximately 200 individuals were chosen from the pool of applicants to participate in the CFE Evaluation Centre. The marking was supervised by the CPA Canada full-time CFE professional staff, with oversight by the CFE subcommittee vice-chair, and the chair of the BOE.

In advance of the marking centre, the members of the CFE subcommittee, staff, leaders, and assistant leaders participated in a three- to six-day preliminary evaluation centre (PEC). Participants reviewed the marking guides, applied them to randomly selected candidate responses, and made necessary revisions to the marking guidelines, taking into account the comments on the marking guides received from provincial reviewers.

The larger teams followed a set marking centre schedule, which included a start-up phase to train the markers. During the start-up phase, the leaders and the assistant leaders presented the marking guides to their teams, while staff and the BOE vice-chair monitored the discussions. The teams undertook a two-phase test-marking procedure prior to actual marking. Phase one consisted of marking guide familiarization, during which markers applied the marking guide to copies of candidates' responses and collectively reviewed their results. Phase one thus ensured that all markers understood the issues in the marking guide and the basis on which to apply each expectation level. Phase two consisted of an expanded test marking of several responses to establish marker congruence.

After the training and test-marking phases, and only when marker congruence was achieved, live marking commenced. All larger teams had a leader, and anywhere from one to four assistant leaders, and had both French-speaking and English-speaking markers. Each team had one or more markers who marked in both languages.

For smaller teams, all markers attended PEC, and moved directly from PEC to live marking. These teams had a leader, and two to three experienced markers, of which two were bilingual and marked all the French papers. These bilingual markers started in English and switched to marking in French once their marking was assessed as being consistent with the team. The bilingual markers arbitrated the French papers by discussing where there were differences in their markings.

The board strives for the highest possible marking consistency and quality control. Leaders and assistant leaders, therefore, devoted much of their time to cross-marking and other monitoring activities. Control papers were fed into the system daily to check marker consistency. Markers' statistics were reviewed to ensure that marking remained consistent throughout the centre. Based on analysis of the statistics, leaders reviewed and, if necessary, re-marked papers to ensure that the assessment opportunities were marked fairly for all candidates. Bilingual markers marked papers in both languages, and their results were compared to ensure that the marking was consistent in both languages. Additional audits were performed at the end of marking on any of the larger differences between markers.

Borderline Marking (Day 1)

Each candidate's paper was marked once. All candidates' responses that were assessed as clear fail, marginal fail, or marginal pass were marked a second time by the team leader, an assistant team leader or a senior marker. Clear pass results were also audited to ensure accuracy of marking.

Double Marking (Day 2)

Each candidate's Day 2 paper was marked independently by two different markers. If the two initial markings differed on any assessment opportunity, an arbitrator (the leader, an assistant leader, or a senior marker) compared the two initial markings and determined the final assessment.

As an added measure to ensure that markers were consistently applying the marking guide, a two-day rule exists, which results in the second round of marking not beginning until two days have elapsed since the first marking. Adherence to this rule ensures that any movement in the application of the guides due to marker interpretations during the first two days of live marking are stabilized before the second marking and arbitration process begin.

Borderline Marking (Day 3)

Day 3 was marked using a borderline model. All Day 3 responses were marked once and then the Day 2 and Day 3 results were combined. All failing candidates who passed the Day 2 role test, had their Day 3 response marked a second time by an independent marker, and any differences between the first and second markings were arbitrated by a leader or senior marker.

Subsequent Request for Remark of Results and Request for Performance Analysis

Failing candidates may request a remark of their examination results and/or a detailed personalized performance analysis for either Day 1, or Day 2 and Day 3 combined, or for all three days.

In an effort to provide failing candidates with more timely feedback, the Board of Examiners is providing an automated feedback report for Day 1 of the CFE. The report is automatically generated using the marking data collected for each response rather than being based on a personalized review of the response and is being provided at no cost to all failing candidates. This report is intended to allow for the identification of the key deficiencies in the candidate's Day 1 response, which then allows the candidate to decide whether to request the more detailed, and personalized performance analysis report noted above, for a fee.

Remarking of Results Approach

Great care is exercised in the original marking and tabulating of the papers and results. The following procedures are applied to all three papers constituting the CFE.

Under the supervision of the chair of the Board of Examiners and of CPA Canada CFE staff, the responses are reviewed by the leaders and assistant leaders who did the original marking. The leaders and assistant leaders read the responses and compare them to the marking guides used at the marking centre. In reviewing candidates' results, two aspects are considered. First, it must be determined that the basis of marking the papers has been consistent with that accorded other candidates who wrote the examination. Second, all responses reviewed are subjected to a careful check to ensure that the markers have indicated that consideration has been given to all material submitted by the candidate.

The results are tabulated and a decision made as to whether any candidates have been treated unfairly and should be granted a pass on the examination. The results are then forwarded to the provincial bodies for notification of the candidates.

APPENDIX B

CAPSTONE 1
JRP BACKGROUND CASE

Capstone 1

J.R. Pets Inc. — Case (FOR REFERENCE ONLY)

Due to timing of authoring of the Capstone 1 case, the interest and inflations rates here do not reflect actual rates. Candidates should use the case facts as presented.

It is May 8, 2023, and you are currently working as a CPA with Quinton and Sparks Consulting LLP (QSC). You have been assigned to develop a report for the board of directors (board) and management of J.R. Pets Inc. (JRP).

JRP has approached QSC with a request to assist it in strategic analysis and to set a new direction for the company. Based on JRP's 2022 results and future forecasts, the shareholders are concerned about the company's slowing revenue growth rate, declining margins, and future prospects. There are conflicting opinions amongst the four shareholders as to the company's future strategic direction. JRP has also asked for assistance with a variety of additional issues that have arisen, which it would like QSC to analyze and address.

You have been provided with the following information to review and analyze (all dollar values are in Canadian dollars unless specifically stated otherwise).

J.R. Pets Inc.

JRP is a private company owned by two friends and their spouses. Julia Hammond owns 40%, her husband Steve owns 10%, Richard Davidson owns 40%, and his wife Elaine owns 10%. JRP currently operates 20 pet stores in total, located in Nova Scotia, Quebec, and Ontario. The company operates in a segment of the pet retail industry, selling a selection of specialty pet foods and supplies and providing pet grooming and training services.

An organizational chart is provided in Appendix I. JRP's most recent financial statements for the years ended December 31, 2020, 2021, and 2022 (prepared under ASPE) are provided in Appendix II. Industry benchmarks are provided in Appendix III.

Pet retail industry information

Description

In Canada, the pet retail industry consists of the following:

- stores that sell only items related to pets ("pet stores")
- other retail stores that sell pet products in addition to other goods ("pet retailers")

The primary products and services in the pet stores include pet food and other supplies, pet-related services, and small animals. In 2020, the pet store industry had total revenues of $2.5 billion and is expected to grow at an annual growth rate of 1.7% to 2025.[1] (Note that this revenue is what has been earned by pet stores in total and does not include sales of pet products that are sold by pet retailers.) Increases in revenues are driven by increasing pet ownership rates. In 2018, based on survey results, 37% of Canadians owned a cat and 41% owned a dog, which approximates 8.3 million cats and 8.2 million dogs.[2] In more recent years, a shift to more employees working remotely from home has increased the demand for pets. Not only has pet ownership been increasing, but average annual pet expenditure per household has also been increasing.[3]

Value chain

Steps in the value chain for pet stores (which excludes training and training services) include the following:

1. Research and development: Manufacturers develop ideas for new pet foods or other supplies or improve current products.
2. Design: Food and other pet supplies are designed as planned, or updated for product improvements.
3. Manufacturing: Manufacturers produce food and other pet supplies.
4. Distribution:[4] Distributors purchase products from a variety of manufacturers and then sell them to pet stores with a markup. Distributors provide manufacturers with a broader distribution network, especially the smaller manufacturers. As well, distributors can offer better management of store relationships, particularly for smaller chains and independent pet stores who rely heavily on distributors for the following:
    - To increase the variety of types of products sold in their stores, since distributors can source from many different manufacturers. Using distributors allows pet stores to purchase in smaller quantities (that is, only three to four product types).
    - To manage replenishment of inventory, especially in cases where the pet store has multiple locations.
    - To supply their slower-moving products, as they can order only as needed.

[1] Luci Couillard, “Pet Stores in Canada, Groomed Well; Rising Disposable Income Levels and Demand for Industry Products Will Likely Support Revenue Growth,” IBIS World Industry Report 45391CA, August 2020.
[2] Canadian Animal Health Institute, “Veterinarians and Their Health Teams Play a Critical Role,” accessed September 30, 2022, https://www.cahi-icsa.ca/preventative-animal-care.
[3] Luci Couillard, 2020.
[4] Liz Lippert and Andres Saenz, “EY-Parthenon Perspectives: Investing in the Pet Industry,” February 2017, https://dokumen.tips/documents/ey-parthenon-perspectives-investing-in-the-pet-industry-brands-to-define-a-differentiated.html.

- To provide expertise on pet products.

  Independent pet stores may source 85% to 90% of their product through distributors, paying a higher per-unit cost for a product item than if the same product had been purchased directly from the manufacturer. However, in return, they are getting the benefits noted above.

5. Pet stores: Pet stores may purchase private-label products (products that are sold under their own brand name) and other brands directly from the manufacturers and through the distributors.
6. Pet owners: Pet stores sell directly to pet owners and to veterinarians.

The pet store industry has low capital intensity and is labour intensive. For every $1.00 spent on wages, $0.08 is spent on the replacement of store equipment including shelving, computers, and point-of-sale equipment.[5]

Product and services segmentation

The pet stores sector is broken down into the following products and services segments:[6]

Segment	**Percentage of total revenues**	**Description**
Pet food and treats	46.3%	Dry and wet food for dogs, cats, and birds; crickets and worms for reptiles; and other treats
Pet supplies	41.1%	Medicines, toys, food bowls, kennels, leashes, collars, life jackets, clothing, bedding, brushes and combs, shovels, cat litter, travel carriers, and other accessories
Pet services	7.8%	Grooming, washing, nail clipping, teeth brushing, pet therapy, training, nutritional consulting, boarding, spa, hotel, camps, portrait photography
Live animals	4.8%	Hamsters, birds, fish, reptiles
Total	100%	

<u>Pet food and treats</u>

Premium-priced dog food has been growing in popularity, and the Pet Food Association is now promoting healthy food that uses free-range meats and ingredients free of pesticides, genetically modified ingredients, and grain.[7] All-natural products are free from artificial colours, flavours, and preservatives and contain ingredients only from plants, animals, or naturally occurring minerals and vitamins. Premium-priced all-natural

[5] Luci Couillard, August 2020.
[6] Ibid.
[7] Olivia Ross, "Pet Stores in Canada, Groomed well; Higher Household Income Levels Have Boosted Demand for Industry Products and Services," IBIS World Industry Report 45391CA, July 2019.

food products are differentiated by their content. The demand for organic products and vegan products, a subset of natural food products, is increasing, and locally sourced food is also an important consideration. These natural products require refrigeration or freezing. Premium-priced pet foods are higher priced due to the higher input costs for the ingredients and the need for cold storage. Once customers find a pet food that their pet enjoys, they are reluctant to change.[8]

The larger pet stores also sell their own private-label products at slightly lower prices than comparable products, but on which they make higher gross profit margins. Private-label pet products can currently be found for food (representing the highest volume and revenues of food sales) and treats, as well as toys, clothing, litter, medicines, and grooming products. In an average pet store that is part of a national chain, up to 40% of all sales can be from the sale of private-label products.[9]

Pet supplies

This segment includes a large variety of goods as shown in the table above, and competition is high, not only from pet stores, but also from grocery and home improvement retailers. As noted above under food and treats, private-label products for pet supplies are also prevalent in the industry.

One subset of this segment that is currently small but growing is sales of pet pharmaceuticals and medications. As more pet pharmaceuticals and medications can be sold over the counter rather than solely by veterinarians, specialty pet stores are offering these products. Sales staff must be trained on these products so that they can advise customers properly on their use.[10]

Pet services

Pet services result in higher profit margins for pet stores and increase traffic into the stores, which increases sales of other products. The ongoing costs of providing these services is often a variable cost, since the typical business model is to split revenue between the contractor providing the services and the store.[11] For example, grooming revenues would be split on some basis between the groomer and the pet store. Similar arrangements would be made for the dog/cat washer, therapist, trainer, and so on.

Live animals

The revenue from this segment has been declining because some municipalities (and provinces/territories) have passed legislation prohibiting pet stores from selling cats,

[8] Caroline Jansen, "The State of the Pet Retail Industry," *Retail Dive*, July 24, 2019, https://www.retaildive.com/news/the-state-of-the-pet-retail-industry/559309/.
[9] Primary research by author in discussions with an owner of a pet retail store.
[10] Primary research by author in discussions with an owner of a pet retail store.
[11] Primary research by author in discussions with an owner of a pet retail store.

dogs, and rabbits.[12] Instead, most pet stores will partner with local animal adoption agencies rather than sell live animals.[13] In these cases, the pet store owners allow the animal shelters to bring rescued cats and dogs into the store for display to give customers the opportunity to see the animals and adopt them if they wish. The stores receive no compensation, and any adoption fees are paid to the adoption agency directly.

Customers

The pet retail industry identifies two customer segments for food and supplies specifically: the first-tier customers being the pet owner and the second-tier customers being the veterinarians who purchase pet supplies and food for their offices.

For pet owners, this customer segment can be further broken down by income level as follows:[14]

Income	**Percentage of total industry revenue (rounded)**	**Comments with respect to the type of products purchased**
Highest income quintile	29%	These customers purchase the premium-priced products.
Second-highest income quintile	21%	These customers have more disposable income and are health-conscious owners who tend to purchase the all-natural products.
Third-highest income quintile	20%	
Fourth-highest income quintile	16%	At these lower income levels, fewer individuals own pets. Therefore, their lower contributions to revenue in the pet retail industry are due to fewer numbers owning pets. If they do own pets, they tend to shop at the mass merchandisers where the pet product costs are the lowest.
Lowest income quintile	14%	
Total	100%	

Another segmentation of the customer market is by age as shown in the table adapted from information provided by Euromonitor International Lifestyles 2019, below:[15]

The percentage of respondents who replied “yes” to each of two questions are provided below by age:

[12] Olivia Ross, 2019.
[13] Luci Couillard, August 2020.
[14] Olivia Ross, 2019.
[15] Caroline Jansen, 2019.

Age	"Do you own a pet?"	"Are pets beloved members of the family?"
15-29	60%	70%
30-44	62%	70%
45-59	56%	65%
60+	48%	63%

As shown in the table above, all age categories own pets, and a high percentage treat their pets as members of their family. Those in the first two age categories are increasingly acquiring pets as they delay major life decisions related to marriage and having children.

Competition

The industry is highly fragmented, with about 2,100 pet stores. The two largest national and global chains, PetSmart Inc. and Pet Valu, together represent 37.5% of the pet store sales in Canada.[16] Global Pet Foods and Mondou (which is only in Quebec) are two other large operators that have been increasing their market share over the past five years. These large pet stores have the scope and scale to purchase in bulk at lower prices and offer thousands of products. Large chains may use either a franchise model or a corporate-owned model, or use a combination of both for their pet stores.

Within the pet retail industry, there are four broad categories of retailers that sell pet-related products:

- Brick-and-mortar (pet stores): physical pet stores that sell only pet-related products
- Brick-and-mortar (other pet retailers): including the mass merchandisers, grocery stores, and home improvement stores that have a small offering of pet products in relation to total other product offerings
- Online (pet stores): pet stores that sell only pet-related products online (for example, Chewy.com)
- Online (other pet retailers): general retailers that sell small amounts of pet products in relation to total other product offerings (for example, Amazon.ca)

It is important to note that these broad categories are blurring as pet stores are moving toward "brick and click" strategies in which they offer both in-store and online shopping.

The landscape of brick-and-mortar pet stores is summarized in the table below:[17]

[16] Luci Couillard, 2020.
[17] Liz Lippert and Andres Saenz, 2017.

Type	Number of stores	Average size of store
Pet superstores (large national pet store chains)	>300 stores per company	>15,000 square feet
Regional chain pet stores	10 to 300 total stores per company	8,000 to 15,000 square feet
Independent stores (local pet store chains / single stores)	<10 stores per company	<8,000 square feet

The pet superstores have the space to offer a wide range of products that will also cater to a large range of customers. In contrast, independent pet stores offer a more select range of products and quality that will cater to their targeted customer segment and will usually have better customer service and loyalty. For all types of pet stores, sales staff training is provided on food ingredients and their implications, how to improve customer service, and pharmaceutical and medical-related products.[18]

Within the industry, there is strong price competition, with many pet stores providing guarantees to match a competitor's price. Competition is also based on quality and selection of products. The large national pet stores have a competitive advantage by offering a broad scope of products (thousands of different types) and by having exclusivity through licensing arrangements to sell the more well-known and sought-after brand names.[19] A key to their success is establishing relationships with distributors and manufacturers, which gives them access to low-priced, high-quality goods.[20] In addition, large national pet stores often sell their own private-label brand of products, which allows them to achieve higher gross profit margins while selling at a slightly lower price than other brands. The private-label products can also drive customer loyalty and brand recognition.

Due to the increased price competition from supermarkets and pet superstores, independent pet stores have been forced to consolidate, find a niche, or exit the market entirely.[21] Niche markets for premium-priced and natural food (such as vegan and organic foods) and other products and services (such as spas and hotel services) related to pet health allow independent pet stores to differentiate from larger retailers that will beat the competition based on price and product scope.[22]

Generally, for the pet store industry, keys to success include being located in high-traffic and visible areas to maximize traffic, having attractive and eye-catching product presentation and displays in the store that promote buying, and offering a wide range of

[18] Primary research by author in discussions with an owner of a pet retail store.
[19] Luci Couillard, 2020.
[20] Ibid.
[21] Ibid.
[22] Ibid.

products at various price and quality levels.[23] In addition, having experienced and knowledgeable staff to advise customers and consistent and good-quality products will ensure ongoing customer satisfaction and continued customer loyalty.[24] Finally, investment in good technology and information systems is critical to allow the company to control and record merchandising, distribution, sales, and stock markdowns.[25]

As with other types of retailers, customer reward loyalty plans are popular for pet stores also. Reward points are given for purchases. Alternatively, a free bag of food can be rewarded after the purchase of a fixed number of bags of food (for example, 12). The reward may be related to buying a specific brand or the retailer's own private-label brand.

The strategy for the large national and global pet stores is to provide a large product selection at low prices. Their focus is to provide a wide range of products and services at competitive prices with convenient locations, to target as many customer segments as possible. These companies can gain a competitive advantage with lower prices and product availability.

For the smaller independent and regional pet stores, a successful strategy is to provide niche products and/or services that allow them to charge premium prices for value-added products. These pet stores are more focused on providing products and services that are tailored to their local customers. Customer loyalty is important, and customers are attracted to these types of pet stores by products that satisfy their specific requirements as to quality and pet preferences and less by price and convenience. Customer service (providing good and helpful advice to customers on products and services) and relationships (understanding a customer's needs and working to meet these needs) help these pet stores gain a competitive advantage. The smaller pet stores may also focus on specific customer segments where it is easier to identify and meet the needs of a smaller group.

There is increasing competition from supermarkets and mass merchandisers (such as Costco and Walmart), primarily for pet food products.[26] These competitors have an advantage by offering one-stop shopping convenience that is appealing to customers who do not have the time to shop separately for their pets.[27] Historically, these retailers sold only the lower-priced dry dog and cat food that had little differentiation and therefore appealed to customers who had little disposable income for pet food and supplies. Supermarkets and mass merchandisers have the sales volumes to give them the buying power with distributors to purchase products at lower prices, which results in

[23] Olivia Ross, 2019.
[24] Ibid.
[25] Luci Couillard, 2020.
[26] Olivia Ross, 2019.
[27] Ibid.

lower selling prices to customers.[28] However, with the increased demand for premium-priced foods, some of these retailers have added these products to their inventory mix.

Home improvement centres are also entering the pet retail segment and selling not only dry food but also many of the common pet supplies.[29] Similar to supermarkets and mass merchandisers, home improvement centres have the advantage of purchasing power and being a one-stop shop for customers.

The pet specialty online pet stores (for example, Chewy.com) have an advantage in that they can carry a wider range of products than traditional brick-and-mortar stores.[30] These online pet stores also have lower labour and capital costs and do not need to invest in employee training on specific products. Online pet stores also sell their own private-label brand of pet food, increasing their margins and eliminating the distributor.

Online retailers (specialty and generalists like Amazon.ca) can also sell at lower prices to customers because they do not have the costs related to physical stores and therefore have lower overheads. Online purchasing appeals to people under 40 and customers who want the convenience and time saving of shopping from home.[31]

Pet stores are differentiating from the supermarkets, mass merchandisers, and online retailers by offering more premium-priced products and services (grooming, boarding, spa treatments) that increase traffic to the store.[32] Additionally, the pet stores collaborate with and support various animal charities, shelters, and adoption services in the community to increase customer awareness and store visits.[33] Finally, shopping at a pet store allows pet owners to consult with knowledgeable staff in deciding which products are best for their pet.

Regulation

There are regulations in Canada related to selling live animals, pet foods, and pet pharmaceuticals.

<u>Live animal sales</u>[34]

Provincial and territorial authorities have regulations concerning the transportation, handling, and sale of small pets. There are also environmental regulations about the generation, handling, storage, transportation, and disposal of waste and biohazard materials. Under the National Animal Health Program, dogs and cats are subject to importation rules. Some cities, such as Vancouver, have implemented bans on selling

[28] Ibid.
[29] Ibid.
[30] Luci Couillard, 2020.
[31] Olivia Ross, 2019.
[32] Luci Couillard, 2020.
[33] Olivia Ross, 2019.
[34] Luci Couillard, 2020.

dogs, cats, and rabbits. In other areas of Canada, groups are advocating for similar bans, but as of yet they have not been successful.

Pet food and pet pharmaceutical manufacturers

Other regulations must be followed by pet food manufacturers. Although pet stores are not directly subject to these regulations, they may become indirectly impacted if they are selling product that has been found to not to meet regulatory requirements. Pet food is regulated by the Consumer Packaging and Labelling Act and the Competition Act, requiring that prepackaged products have accurate and meaningful labelling.[35]

Similar to human pharmaceuticals, animal medications must meet strict requirements set by Health Canada or the Canadian Food Inspection Agency to be licensed for sale.[36] Pet pharmaceutical manufacturers must provide scientifically based evidence of the following factors in order to receive this approval:[37]

- It does what its label says it does (is efficacious).
- It is what the manufacturer says it is.
- It is safe for the animal and the person administering the medication.
- Its use doesn't harm the environment.
- It has science-based safeguards to ensure that the meat, milk, or eggs produced by a treated animal do not contain harmful residues.

Demand drivers

The three main demand drivers for pet retail sales are as follows:

- Per capita disposable income: The higher the disposal income, the more likely pet owners are to purchase premium-priced products to indulge their pets from specialty pet stores. When cash is a constraint, pet owners purchase the cheaper products available at supermarkets and mass merchandisers.[38]
- Population and demographics:[39] Generally, pet ownership declines as individuals work longer hours, frequently move or travel, or live in homes that do not permit pets. Pet ownership increases with an aging population, since pets provide companionship for older people who are living alone.

[35] Ibid.
[36] Ibid.
[37] Canadian Animal Health Institute, "We Are Strictly Regulated," accessed September 30, 2022, https://www.cahi-icsa.ca/we-are-strictly-regulated.
[38] Olivia Ross, 2019.
[39] Ibid.

- Pet ownership rates: As the population grows, the number of pets also increases, increasing the demand for pet-related products and services.

Impact of a global pandemic on pet stores

With the occurrence of a global pandemic, the impact to the pet retail industry is minimal, since pet food and supplies are essential.[40] However, if disposable income levels decrease, customers tend to switch to lower-priced products and to online purchasing, which may negatively impact profit margins. Profit margins are also negatively impacted due to increased costs incurred for enhanced cleaning protocols, lower-margin product sales, and offering free delivery of product to customers.[41]

The increase in online sales during a global pandemic results in more pet retailers investing in e-commerce logistics, which should ensure sales of essential products continue to be made.[42] Pet care services will likely be impacted, with non-medical pet services such as boarding and grooming being the hardest hit for areas with in-person restrictions in place.[43] However, at times when restrictions are lifted, these services can be in higher demand than ever before.

The supply chain can be particularly hard hit during a global pandemic. With many workers sick, manufacturing cannot occur at the same pace, and there can be fluctuating shortages of pet food and other supplies.

During a pandemic when people are socially isolated, they tend to rely on their pets more than usual for comfort and security. As a result, the trend of treating pets as part of the family gains even more acceptance.[44]

Trends

Trends expected for the future include the following:

- Increasing trend of pet "parents," defined as those who treat their pets as family members and want only the best for their pets and are willing to spend to get it.[45] This is also known as "humanization" of pets.[46] With this trend, pet parents like to take their pets with them wherever they go and are more willing to purchase goods and services for their pets that would normally be reserved for humans.

[40] Luci Couillard, August 2020.
[41] Ibid.
[42] David Lummis, "The Key Ways the COVID-19 Crisis Could Impact the Pet Industry," *Pet Product News,* March 23, 2020, https://www.petproductnews.com/archives/the-key-ways-the-covid-19-crisis-could-impact-the-pet-industry/article_f7fd1ec3-697e-55b7-aaf5-176a76c16bd5.html.
[43] Ibid.
[44] David Lummis, "What Will the Pet Industry Look Like After the COVID-19 Pandemic Subsides?" *Pet Product News,* June 30, 2020, https://www.petproductnews.com/archives/what-will-the-pet-industry-look-like-after-the-covid-19-pandemic-subsides/article_cdac37f4-bb29-5588-8cd0-0de35e5b54ea.html.
[45] Olivia Ross, 2019.
[46] "Pet Care Industry Analysis 2020 – Costs and Trends," *Franchise Help*, accessed September 30, 2022, https://www.franchisehelp.com/industry-reports/pet-care-industry-analysis-2020-cost-trends/.

- "Premiumization" is the trend in which pet owners demand higher-end or specialty products and services for their pets.[47] This includes premium-priced dog food and treats made from natural and organic ingredients that are high in protein and low in fillers, byproducts, and artificial additives.[48] High-tech medical therapies, luxury spas and services, and luxury boarding are niche services that are meeting these owners' needs.
- As people become more concerned with their own personal well-being, this can include concern for the health and well-being of their pets. Customers are looking for nutritional consulting, dietary supplements, and other health-care products to ensure the health of their pets.
- There is increasing demand for health-care products related to skin care, and these are increasingly sold at pet stores rather than by veterinarians. As pet owners try to reduce their pet medical bills and costs related to prescription drugs, the preference is to purchase these at the store rather than the vet.[49]
- Dietary supplements are increasingly sold at pet stores as pet owners try to reduce increasingly expensive veterinary costs. These vitamins and minerals are used by owners of aging pets to prevent nutritional deficiencies or to treat specific illnesses due to joint, digestive, and cardiovascular issues.[50] One trend is the increasing demand for collagen in the form of nutritional toppers and supplements, which are added to food.[51]
- Many pet parents want to take their pets to enjoy social experiences with them when they travel or go for outings. There is a growing demand for social experiences that include and make concessions for pets to come along.[52] Pet-friendly hotels are an example of this.
- Pet subscription services for monthly deliveries of food, medicines, and treats are increasing. These monthly subscription boxes may also contain surprises for the pet such as toys, treats, and samples.[53] These subscription services are particularly appealing to pet owners aged 25 to 40, and subscriptions are expected to increase.[54]
- In a study, 88% of pet owners aged 25 to 40 interviewed thought that owning a pet was a way to prepare for being a parent.[55] This younger customer segment is quick to adopt new high-tech products related to pet ownership. In addition, because this

[47] Ibid.
[48] Olivia Ross, 2019.
[49] Ibid.
[50] Ibid.
[51] Stacy Wood, "Pet Industry Trends for 2020: What's New in the New Year," *Pet Food Experts*, January 2, 2020, https://blog.petfoodexperts.com/pet-industry-trends-to-look-out-for-in-2020.
[52] Sarah Stasik, 2020.
[53] Ibid.
[54] Luci Couillard, August 2020.
[55] Bookly, "The State of the Pet Industry: Pet Market Statistics and Future Trends," accessed September 30, 2022, https://www.booking-wp-plugin.com/state-pet-market-statistics-future-trends/.

customer segment works long hours, they want to be able to easily book pet service appointments online, creating demand for friendly and intuitive online booking processes.

- Pet owners are searching for alternative therapies to help treat their pets, including massage, chiropractic therapy, acupuncture, and cannabidiol (CBD) oil or hemp products.[56] Massage and chiropractic therapies are thought to help pets in pain. Canine massages help improve circulation, relax contracted muscles, improve movement, release stress, and improve recovery from surgery or injury.[57]
- Pet parents are interested in luxury boarding facilities that provide similar amenities to what humans would want, including whirlpool tubs, treadmills, salons, mud baths, facials, and warm water therapy.[58]

General risks in the pet retail industry

General risks in the pet retail industry include the following:

- Store expansion and location risk: There is a risk that an existing store will not perform as it has historically due to increased competition and changing demographics in the local market, which could cause the store's sales to decline. There is also the risk that opening a new store may cannibalize existing stores' sales or not meet management expectations.
- Supplier risk: All pet retailers and pet stores rely on manufacturers and distributors to meet their supply demands for inventory product. If these shipments of specified products are not received in the quantities required or on time, or there are other disruptions in the supplier relationships, then product will not be available, and sales are lost.
- Technology risk: Disruptions in IT systems causing point-of-sale equipment to fail may result in lost sales. In addition, if the technology required for online selling is outdated, not user friendly, or not operating effectively, online sales could be lost.
- Customer risk: The demand for pet food and supplies is driven by customers' preferences for products. Should customer preferences change or competitors provide a better product in the eyes of the customer, sales will decline.
- Reputational risk: A pet retailer's or pet store's reputation is based on providing good customer service, selling quality products, and using truthful advertising related to products and services. If customers complain about the service or products sold or there is adverse publicity, this may tarnish the retailer's reputation and cause its sales to decline.

[56] Ibid.
[57] K9 Central, "Canine Massage," accessed September 30, 2022, https://k9central.ca/canine-massage/canine-massage-47.
[58] Bookly, 2022.

- Regulatory risk: Currently, there are regulatory requirements for pet product manufacturers and sellers of live animals that must be followed. There is a risk that there may be unfavourable changes in these government regulations or new ones that pet retailers will be required to follow. This will increase costs or could hamper business if the requirements are not followed correctly.

Pet grooming and boarding industry information

The pet grooming and boarding industry includes animal shelters, obedience and guard dog training services, pet boarding, and animal grooming services. This does not include these services provided by pet stores, so it does not include any revenues earned by the pet stores industry as described above. In 2020, the pet grooming and boarding industry represented $626 million in revenues. Overall, the annual industry growth rate is expected to be only 1.3%, although the annual growth in the number of operators in this industry is expected to increase at 4.8% until 2025.[59]

Products and services

Total industry revenues can be broken down into the following segments:[60]

Segment	Percentage of total revenues	Total revenues (millions)	Description
Boarding	39.8%	$249.1	Overnight care including accommodation, food, exercise, and playtime
Grooming	29.6%	185.3	Cutting and shaving hair; trimming nails; cleaning hair, teeth and ears; massages; flea and tick removal
Training	7.5%	47.0	Providing obedience training and lessons for dogs, including guide dogs and guard dogs
Other	15.8%	98.9	Pet sitting, dog walking, adoption, daycare, pet funerals, and animal identification and marking services
Merchandise	7.3%	45.7	Treats, collars, leashes, clothing shampoos, food, and other
Total	100%	$626.0	

[59] Jonathan DeCarlo, "Pet Grooming and Boarding in Canada," IBIS World Industry Report 81291Cam, April 2020.
[60] Ibid.

The demand for boarding, grooming, and training continues to increase as pet ownership and disposable income per capita increases. The demand for boarding is specifically impacted by international and domestic travel by pet owners.[61]

There has been a shift in how pet owners see their pets, and this change in behaviour results in owners wanting to give their pets a more affluent and comfortable lifestyle, resulting in more specialized offerings.[62] People want to either travel with their pets or be sure that they are well taken care of while they are away. Pet owners now expect the same type of service and experience for their pets as they would get if they stayed in a hotel.[63]

As customers demand higher-value-added and luxury services for their pets, pet boarders have introduced deluxe facilities with many amenities and added services such as pet-themed shows, wading pools, classical music, training, and grooming, which are available during a pet's stay.[64] At a minimum, customers are looking for boarding facilities that are clean, well ventilated, comfortable, and staffed with knowledgeable and caring people.[65] Luxury dog hotel facilities will have additional amenities including large, private rooms for each dog that have plenty of space, webcams to allow pet owners to check up remotely on their pets, heated pools or water fountains for playing, and ball pits for jumping in.[66] These luxury facilities are premium-priced, allowing boarding operators to earn high net profits of 15.8% on average.[67]

Customers

For the total pet grooming and boarding industry, customer segmentation by quintile is as follows:[68]

[61] Ibid.
[62] "Pet Care Industry Analysis 2020 – Costs and Trends," *Franchise Help*, accessed September 30, 2022, https://www.franchisehelp.com/industry-reports/pet-care-industry-analysis-2020-cost-trends/.
[63] Stuart Pallister, "Pet Hotels: The Ultimate 'Niche'?," *EHL Insights,* accessed September 30, 2022, https://hospitalityinsights.ehl.edu/pet-hotels.
[64] Jonathan DeCarlo, 2020.
[65] "The Rising Trend of Dog Hotels," *PetPlace*, August 23, 2017, https://www.petplace.com/article/dogs/pet-care/the-rising-trend-of-dog-hotels/.
[66] Ibid.
[67] Jonathan DeCarlo, 2020.
[68] Ibid.

Market segment	Percentage of total industry revenue
Highest income quintile	33%
Second-highest income quintile	23%
Third-highest income quintile	18%
Fourth-highest income quintile	15%
Lowest income quintile	11%
Total	100%

The highest quintile represents the highest percentage of the revenues, as people in this segment tend to travel more and therefore require more of these services. In addition, this segment tends to prefer the premium-priced services.[69]

Competition

To be successful, pet boarders (and groomers) must be situated close to highly populated and affluent areas. The following table (adapted from a graph) shows the percentage of these establishments in the provinces and territories in comparison to the percentage of population.[70]

	Estimated percentage of establishments in the total industry	Estimated percentage of Canadian population
Atlantic provinces	7.7%	8%
British Columbia	18.9%	12%
Ontario	40.1%	39%
Prairies	21.0%	18%
Quebec	12.3%	23%
Territories	Less than 1%	Less than 1%

The competition in the pet grooming and boarding industry is very fragmented, with no single company having more than 5% of the revenues and 98% of the current operators having fewer than 20 employees.[71] Keys to success in this industry include providing good customer satisfaction, since word of mouth recommendations are most important in customer selection; having effective quality control standards that are maintained at all times; having a well-trained and flexible work force; and being in close proximity to a large population.[72] In cases where remote deluxe pet camps are far away from local

[69] Ibid.
[70] Ibid.
[71] Ibid.
[72] Ibid.

cities and towns, the pet boarders will often provide a pick-up service to and from the city or town, saving the pet owners a trip.

There are some regulatory requirements, particularly for pet boarders, which include the following:[73]

- They need a business licence to operate.
- Kennels cannot be located in residential areas.
- Provincial and local governments have regulations related to animal care, hygiene, safety, security, and noise control.

There are national organizations that represent the industry, such as The National Groomer Association of Canada and the International Boarding and Pet Service Association (IBPSA).[74] The Canadian Veterinary Medical Association has written the Code of Practice for Kennel Operations, which must also be followed.

Company background

Julia Hammond has always loved dogs and grew up with dogs as part of her family. She went to school to become a veterinary assistant and after graduating worked for a veterinarian. In 2006, Julia had a dog named Tilly that was quite ill for a period of time until Julia was able to finally find a fresh pet food that Tilly could digest, called Truly Real Food for dogs. Richard Davidson was the sales representative of Truly Real Food and was the one who suggested she try this food. Truly Real Food is made from only natural ingredients and is sold fresh or frozen.

As Julia sought a food product Tilly could tolerate, and did months of research, she found out how little pet stores and their sales reps that came to the veterinarian office really knew about the food they sold, particularly its contents. In stark contrast, Richard was extremely knowledgeable about not only his product, but all of the competitors' products on the market.

From this research and experience with Tilly, Julia learned how important the right food was to the health of pets. As a veterinarian assistant, she was also surprised how often pet owners asked what the right food was to feed their pets.

During the next year, Julia and her husband, Steve, and Richard and his wife, Elaine, became very good friends. All four individuals had many common interests including a love of pets. Given their backgrounds, Julia and Richard both had a real worry that most of the pet foods available had little nutritional or health benefits for dogs and cats. At the same time, they determined there was a void in the pet store sector in Keltown, Nova Scotia, where they lived, to meet the needs of pet owners who wanted raw, fresh or frozen, unprocessed food for their pets. At the time, Keltown was a small affluent town

[73] Ibid.
[74] Ibid.

with about 40,000 people. After analyzing the market, Julia and Richard decided there was a real need for a pet store that sold a selection of healthier all-natural pet foods.

In 2007, JRP became incorporated and opened its first store in Keltown. Julia, Steve, Richard, and Elaine all became shareholders in the company. Julia and Richard quit their jobs and started to work for the company full time. Elaine, who was an accountant, kept her current job with a local consulting firm, but also became JRP's accountant. Steve, who sold commercial real estate, also continued in his current job.

The first store was 3,200 square feet and located in a strip mall with heavy local traffic. The merchandise consisted of higher-end pet products, including food, supplies, and treats. It was Richard's responsibility to select the products to be sold, which he did with care and extensive research. Any food items had to be made from 100% all-natural ingredients including fresh meat, fruits, and vegetables, with no additives, preservatives, or fillers. The company also sold a limited quantity of pet supplies that were high quality and made from durable and safe materials. The company's objective was not to carry an extensive inventory, but to select only superior-quality products that would appeal to their demanding clientele. Their customers were affluent and discerning in the type of food they fed their pets. The full line of Truly Real Food products initially made up a large percentage of the pet food inventory. The idea was that JRP would primarily sell pet food (to represent at least 85% of sales) and supplies would be minimal.

In early 2009 the shareholders determined it was now the time to open another store. Steve suggested a store be opened in a neighbouring town about two hours from Keltown. This town also had affluent neighbourhoods and Steve had found the perfect location in a strip mall. In late 2009, a second store was opened and a year later in 2010, a third store was opened in another town in Nova Scotia. Due to demand from its customers, JRP started to offer dog training classes at its stores after store hours.

In 2011, Elaine's firm asked her to move to Quebec to transfer to a new office. Richard, having business experience in Quebec, thought there might be a good market in Quebec for JRP stores. This turned out to be true, and during the next four years, seven new stores were opened throughout Quebec. In all cases, the towns selected had the characteristics of having an affluent population of less than 150,000. Locations were in strip malls that had heavy traffic from the local community. In 2013, Elaine left her firm and came to work for JRP full time.

In 2015, Julia and Steve moved to Ontario to be close to their extended family, and Steve came to work for JRP full time. By this time, the company had laid out a set of criteria to use to assess potential new locations. These criteria included population size (less than 150,000), an above average income level, appropriate location (strip malls with high traffic with reasonable rental rates and long-term leases), a currently underserved market for JRP's product type, and financial forecasts that achieved target sales per square foot within a three-year period.

During the next few years, JRP opened 10 stores throughout Ontario. Towns were selected based on the criteria that had proven to be successful and after careful market research to ensure that the new location would be successful. In 2016, the company added pet grooming services (washing, nails, and teeth) and a self-washing pet station to all its stores.

By early 2019, the company had 20 stores in total, with three in Nova Scotia, seven in Quebec, and 10 in Ontario. With the start of a global pandemic in 2020, the company decided to stop its expansion and not make any new investments until the economy was more certain. In 2023, JRP still has 20 stores. Although there was some reduction in sales during the pandemic, JRP's customers kept shopping for their favourite brands. When stores were forced to remain closed, JRP began offering curbside pick-up. Once pet stores were allowed to reopen for in-person shopping, JRP followed all health protocols required. Julia was pleased to see that their customers remained loyal throughout this tough period.

It was during these uncertain times of 2020 and 2021 that the shareholders decided to take a more prudent approach and re-evaluate what they wanted JRP to look like for the future.

Company overview

Currently, all the stores are corporate owned and managed by JRP employees. All stores are laid out in a similar format and size, averaging about 3,850 square feet. There is nothing unique about the layout or design of the stores except the customer service. JRP's target affluent customer represents the highest and second-highest income quintiles. From the start, Julia wanted to have high-quality customer service and therefore ensured that the store staff are well trained and knowledgeable about all the products. The company also has a loyalty rewards program for its customers. As a result, JRP has obtained a reputation for providing excellent customer service by caring staff. In recognition of this, JRP has won multiple awards in multiple years for being the "Best in Customer Service."

During the global pandemic, the company started selling its products online. However, this was done only to allow existing customers to place orders and receive local delivery during the pandemic. It was never intended for non-local customers to purchase product. As a result, little has been spent on this system, and in 2022 internet sales represented only 3% of all sales. Julia strongly believes that the success of the company is due to its face-to-face customer service, which cannot be replicated when new customers purchase products online.

JRP's product mix has also changed over time to become more extensive. Products are still high quality, including food products made from healthy ingredients and pet supplies made from durable and safe materials. Food and treats are made only from all-natural ingredients and sold as fresh or frozen, requiring in-store display and storage in refrigerators or freezers. These healthy food products contain no additives, fillers, or preservatives and are made solely from real meat, fruit, and vegetables. Over the years the available selection of these types of food has increased, and food products are now segmented by age, breed, level of activity, certified organic, and vegan. This wide range of food products appeals to JRP's demanding clientele.

The range of pet supplies significantly increased over the past five years as customers' demands for these products increased. Pet supplies include collars, leashes, beds, clothing, and toys. As a result, the percentage of pet supplies revenue has grown to over 30% of all sales revenue in 2022. Grooming services and dog training classes continue to be offered, and the self-washing stations are a standard in all stores. Pharmaceutical and medical treatments are not currently sold.

Each store has two managers (one full time and one part time) with extensive experience in retailing. The company has a policy of promoting from within where possible, so generally, existing store employees are given a chance to apply for managerial positions. Julia and the VP, store operations make the final decision on promotions and hiring of the store managers. The store managers are given responsibility for hiring and firing of their own store employees. Both managers and store employees undergo regular training on the products and services that JRP sells in addition to customer service. Employees are encouraged to remember customers' names and to greet every customer that comes into the store. They are also trained to always ask about the pet the customer is buying for and to try to understand the needs of the pet and the pet owner. Customers are encouraged to provide information for the store database that lists the customer's name, pet name, pet type and breed, and pet's birthday. Items sold are tracked by customer so that employees can look up previous purchases. Finally, employees are encouraged to get feedback on products from customers as to what they liked or did not like. All of these actions have been successful in promoting customer loyalty and long-term relationships.

JRP's philosophy is to pay wages and salaries higher than market to attract and retain good employees. This appears to have worked well, since employee turnover is low. Julia believes that if employees are happy in their jobs, they will be better ambassadors for the company and provide excellent customer service. Just as JRP wants loyal customers, it also wants to have loyal employees.

JRP not only supports internal loyalty, but it has also been loyal to its suppliers (both manufacturers and distributors) over the years and has exceptionally good relationships with them. In fact, JRP has often helped with product development and test marketing in its stores. JRP deals directly with manufacturers for all its pet food and treats products and with distributors for its other supply of products. JRP has arrangements with all its suppliers to ship directly to the stores, and therefore has no distribution warehouses.

In May 2023, the shareholders find they are at a point where they have to re-examine and perhaps revise their strategic direction. When they began, fresh food for pets was just beginning to enter the market. Since then, the number of products available and increased customer interest has increased the number of specialty pet stores similar to

JRP. In addition, the large national and online pet stores have also entered the fresh food market. The company's only point of differentiation from these new competitors is its loyal customers and excellent customer service. The shareholders are concerned that this may not be sustainable in the long run.

In addition, JRP's strategy has been to open new stores that are within a four-hour drive of one of the shareholder's homes. This has allowed the shareholders to be hands-on with every new store opening and very selective in the location. This hands-on approach has worked well in the past. But now, the shareholders are no longer interested in travelling to open new stores but are reluctant to trust someone else to find a new location and manage opening a new store. Consequently, no new store openings are planned. However, the markets for the current stores have now reached maturity and sales growth is forecasted to be low. To increase revenues and profits, a new growth strategy is required.

Corporate vision and mission

JRP's vision and mission statements and core values, approved by the board in 2019, are as follows:

Vision statement: *To create a better everyday life for pet owners and their pets by providing the highest quality of healthy, innovative, fun, and safe products for cats and dogs in stores that are staffed by pet-loving and knowledgeable people.*

Mission statement: *We are committed to meeting all the needs of pet owners and pets by providing superior products that will keep pets healthy and happy throughout their lives. We want to give our customers the most captivating shopping experience that will ensure life-long relationships and loyalty. We want to be relevant not only to pets and pet parents, but also to our communities by supporting local animal-related charities.*

Corporate values

JRP has six core values:

1. Have a positive impact on our pet parents and create lasting relationships.
2. Sell only the highest-quality products that will foster healthy and happy pets.
3. Provide pet parents with knowledgeable advice on products to help them make the right decision for their pets.
4. Value, develop, and reward contributions, service, and skills of our employees.
5. Act always with the highest ethical standards, integrity, and honesty.
6. Care about, be involved in, and give back to our local communities.

Future plans and objectives

In May 2023, the board met and set the following objectives for 2024, 2025, and 2026:

- Decrease the percentage of revenues from pet supplies sold to less than 15% of total revenues by 2026.
- Increase operating profit margin to at least 7% by 2026. Operating profit is defined to include operating income plus any investment income.
- Offer at least two additional types of pet-related services by 2026 in order to meet the service needs of JRP's current customer target segment, as indicated by recent survey data.
- Increase the number of loyalty reward customers by 15% by 2026.

Company structure

The company has a board of directors that consists of Julia, Steve, Richard, and Elaine, who each have equal voting rights on board decisions. The board meets monthly. At each meeting, topics related to financial and budget reports, store issues, supplier contracts, new corporate policies, and election of corporate officers are discussed. There are no board committees.

Management team

JRP's corporate management team is made up of the following individuals. All shareholders expect to stay with the company for another 15 years.

Julia Hammond, CEO and chair of the board

Julia is 48 years old. She was a veterinarian assistant before opening JRP's first store, but she has always been a dog lover. Julia founded the company after determining that there was a demand for healthy and fresh pet food that was not being met by existing local pet stores. She identified early that there would be an increasing demand for this healthier choice of food and was able to enter this market several years ahead of other major competitors. She passionately believes in the food products that JRP sells and believes that this is what makes the company different. She also understands that customer relationships are vital to keeping customers loyal and returning to the store.

Julia's strength is being able to articulate her vision for the company and instil at each employee level a need to embrace this vision and to be the best that each employee can be. Julia is also able to generate an atmosphere where employees want to come to work and enjoy helping customers. Julia works well with all levels of management. Her primary responsibility is working with Rashid Baid in managing the store operations. In the past, she visited every store at least twice per year and knew each store manager personally. However, in the past three years, she has not visited the stores, as the demands on her time have kept her in the office. It is Julia's belief in JRP's value proposition and products that have led to the success the company has achieved.

Julia wants to retain the small network of stores, since she likes being personally involved in each store and at 20 stores, this practice is still manageable. She does not want to expand beyond the current stores but thinks instead that the company should expand into other segments of the pet market. She is concerned that competition from national pet retailers and other pet specialty stores has now encroached into the product areas where JRP has been successful and profits will start to erode. She is confident that JRP can maintain and hold on to its existing customer base, and believes that opening new stores and gaining new customers will be much more difficult than it has been in the past. She wants the company to look at investing in a pet food that will rival or surpass anything currently on the market and target a very discriminating customer segment. In addition, similar to what she did with the healthy pet food choice in identifying an unmet demand early in its life cycle, Julia wants to invest in a new segment of pet services that is at the early stages of its life cycle and whose market is expected to increase significantly in the future.

Richard Davidson, VP product purchasing

Richard is 48 years old and is also a dog lover. He has a chemistry degree and worked as a salesperson for a variety of pet food manufacturers prior to starting the company with Julia. His strength is in research, and he spends hours researching the products before he decides that JRP should carry them in the stores. With his chemistry background, Richard understands ingredients, and extensive research has helped him understand how various ingredients are harmful to pets' health. He visits manufacturers regularly and also attends trade shows to learn what is happening in the pet food sector and to keep at the forefront of new products. Richard deals with JRP's pet food suppliers on a day-to-day basis, giving constant feedback on their products. He subscribes to multiple newsletters and magazines that are devoted to the pet industry. He is involved in training the employees on the products and highlights their benefits and why he has chosen these products. With this understanding, he believes the employees have the knowledge to advise customers. His strength is in the depth of knowledge that he has gained about pet products, and the company has come to rely solely on his expertise.

Richard wants to expand nationally and increase the number of stores across Canada. He believes JRP has a successful retail model that should be used to further expand. He wants to expand the number and type of health-related products and services sold to gain more market share while still maintaining knowledgeable staff, which is mandatory for differentiation.

Steve Hammond, VP real estate

Steve Hammond is 50 years old. After graduating with a political science degree, he began selling commercial real estate. Steve is responsible for site selection and completing the selection criteria on any new store locations. He completes all the due diligence on new sites including the local market analysis and presents the information to the board for approval. Generally, the directors support Steve's recommendations, as they know that he is thorough and makes a suggestion only once he is convinced it is the right place. Steve reviews and manages the lease agreements for the stores and head office and supervises all leasehold improvements and new equipment installations. Steve is also responsible for any issues arising on any properties that require significant expenditures and contact with the landlords. His strength is in negotiations, and he has been very successful in negotiating favourable contracts with suppliers and landlords. Steve likes to manage all aspects of JRP's real estate personally and does not feel he can trust a non-shareholder to make the right decisions in the best interests of the company or to manage new store openings.

Steve believes his success in selecting store sites has been due to being close geographically in the first year of operations of a new store. When the Quebec expansion took place, Steve stayed with Richard and Elaine while he found new sites and managed their openings. But Steve feels that it will be difficult now to find new sites in other provinces, and he does not want to travel for long periods of time to find an ideal location and then manage its opening. He also does not want to trust this work to someone else. He agrees with Julia that as competition in the retail sector for JRP's products has increased, now is the time to look for alternative investments. Steve believes that JRP should invest in a pet food manufacturer that will create an all-natural brand that will be better than products currently on the market and target a very discriminating customer segment. Alternatively, JRP could invest in a new emerging sector of the market where the future looks bright and profitable and yet there are few competitors.

Elaine Davidson, chief financial officer

Elaine is 48 years old, and prior to joining JRP on a full-time basis, she worked as an accountant for a consulting company and then as JRP's accountant. Her educational background is in international business, and she has extensive financial knowledge, although she is not a CPA. Since joining JRP full time, Elaine has full responsibility for all the accounting personnel and preparation of financial external and internal reports. She works closely with the store managers, reviewing their weekly and monthly reports, and with each of the department managers, reviewing their monthly reports. The head of the IT department also reports directly to Elaine. By meeting regularly with all managers at the stores and the various departments, Elaine has been able to keep on top of any cost or revenue issues that arise and has been able to deal with these quickly. At the same time, she has made sure that all JRP managers have some level of financial literacy so they can understand and interpret their own reports and spot any issues arising as early as possible.

Elaine believes that JRP's current retail model is sustainable with some changes in product mix and adding special pet services. She agrees with Richard that JRP should stay in retail, since the shareholders know this segment very well and it will be less risky than entering new segments where they have no experience. By being more selective on products, choosing products and services where premium prices can be charged and high gross profit margins made, she thinks this model can continue to be successful for years to come. The company already has a good reputation, which should be built upon. She supports expanding westward to increase the company's scope and believes that with the right people in place, this can be done. The company has reached a size where the shareholders themselves can no longer manage the growth and they must hire experienced and trustworthy individuals to take the company to the next level.

Cecilia Chang, VP legal and human resources

Cecilia Chang is 42 years old. After graduating with her law degree, Cecilia worked in the legal department of a large national pet store chain. In 2017, Cecilia joined JRP as its in-house lawyer and is involved in drafting and reviewing the company's contractual agreements with suppliers and lessors for the store locations. She is also responsible for the human resources department and all employee-related issues including bonus incentive plans and approving pay raises, terminations, and new hires.

Rashid Baid, VP store operations

Rashid Baid is 55 years old. Rashid has worked his entire career in retail. He started as a retail clerk in a menswear store and worked his way up through management and into the head office. He joined JRP in 2010 working at one of the stores. Rashid was promoted to store manager and then came to the head office to work in the purchasing department with Richard. Eventually, he was promoted to VP, store operations. His responsibilities are to manage the store managers and deal with any day-to-day store operational issues that arise. He is responsible for filling the store manager positions when vacant at the stores.

Human resources

The breakdown of wages by position in the organization is provided below:

Senior management — shareholders (each paid $250,000 annually)	$1,000,000
Other senior management	240,000
Store managers	1,720,000
Store staff — full time	2,040,000
Store staff — part time	906,000
Administration, marketing, IT, head office staff	750,000
Employee benefits	602,000
Total employees (186 employees)	$7,258,000

There are no additional benefits for store staff and store managers other than what is required by law. For senior management, there is a health plan. All employees may purchase items in the store at a 30% discount from the selling price.

The store managers and store employees are required to take five online courses a year to update themselves on pet products and improve their customer service. Each year, the company identifies the courses that must be taken. Some of the product manufacturers mandate that this training be taken to ensure staff are knowledgeable about their product. Other courses are required by the company to improve customer service skills. This training is important to the company to ensure that store employees are up to date and knowledgeable on products and able to give advice to customers. This annual training is key to maintaining excellent customer service. This training requirement is detailed in JRP's human resource policies along with its code of conduct and core values. The company reimburses the fees for any courses taken.

Store manager incentive program

Currently, the store managers participate in an incentive program that provides them a bonus based on net profit made in their store, after making adjustments for costs that the store managers have no control over. Elaine wants to amend this incentive plan to encourage store managers to promote the company's core value of caring about, being involved in, and giving back to the local communities.

Company operations

Store operations

JRP has 20 store locations with three stores located in Nova Scotia, seven in Quebec, and 10 in Ontario. The layout of the stores, and the product selection, displays, shelving, and pricing are all fairly consistent. Store managers have the authorization to stock up to 5% of products that are specific to their local community and customer base. Stores are open seven days a week and closed on holidays. Store managers also have some leeway in setting some prices, given local competitors' prices.

Revenue, inventory management, and cost of goods sold

Below is a summary of revenue and costs by product and service type for 2022 (in thousands of dollars):

	Pet food	Pet supplies	Pet services	Total
Revenues	19,725	12,850	5,925	38,500
Cost of goods sold	8,475	8,990	3,555	21,020
Gross profit	11,250	3,860	2,370	17,480
Gross margin percentage	57.0%	30.0%	40.0%	45.4%
Percentage of total revenues	51.2%	33.4%	15.4%	

Over the past three years, the percentage of total revenues for pet food has continued to decrease and the sale of pet supplies has increased. Additionally, the company has not raised its prices since 2019 to remain competitive. Due to limited retail space in the stores, the company has been unable to offer pet services other than grooming and training classes.

Generally, 75% of products sold are for dogs, with the remaining amount representing cat-related sales. The company does not sell any live animals or products related to other common pets such as birds, fish, or reptiles. Ten percent of the pet food and pet supply sales are made to veterinarians. These sales are made on credit terms of net 30 days. All other customers pay by cash or credit card at the time of sale.

The company has up-to-date point-of-sale (POS) equipment in all its pet stores that is linked directly to the inventory management software program. Inventory is managed at each store. Inventory is shipped directly from the supplier to the appropriate store. At the time of the sale, the inventory items are removed from inventory. Daily and weekly sales reports are produced, summarizing the number of units sold by product code. The inventory management software is state-of-the-art and is used to set reorder points, highlight slow moving items and markdowns, and display the current prices and current unit costs. The inventory management software also ties into the accounting software to properly recognize the month-end inventory balance and the cost of goods sold for the month. At the end of every month, spot checks are performed to compare the perpetual inventory listing to the actual inventory on hand. Store managers are responsible for this check in their stores.

The company has three-year supply contracts with the manufacturers of its pet foods and treats. As part of its manufacturing contract, the company receives a partial rebate to cover any losses incurred when these products are promoted at below normal selling prices. These rebates are deducted from the cost of goods sold. For its pet supplies, the company purchases from several different distributors. The cost of goods sold includes the cost of the inventory items, shipping costs, and rebates or volume discounts from its suppliers. JRP has been able to secure an exclusivity arrangement with one of its manufacturers, Truly Fresh Food. This arrangement gives JRP the right to be the only seller of the product within given geographic areas.

Pet services include grooming and training classes. For these services, the store retains 40% of the revenues and the remaining 60% is paid to the groomer or trainer. There are minimal additional variable costs related to these revenue streams.

Direct store costs

The direct store costs include items such as shelving and displays, supplies, staff training and hiring, and other supplies and miscellaneous costs.

Marketing and advertising

Due to having only 20 stores spread across three provinces, the company's marketing is done at the local level. JRP has found that more localized marketing works the best to bring customers into the store, since each community has its own characteristics. The company uses a variety of marketing and advertising methods, including in-store promotions, social media, email offers to customers, and sponsorships.

The company maintains a customer database that is also linked to its rewards loyalty program. Currently, the company has a database of 62,000 customers, of which 70% are members of its loyalty program. In the customer database, the company retains the customer's name, contact information including email address, the customer's type of pet, and the pet's name. Every time an item is sold, the customer database is updated with the purchase. The rewards loyalty program tracks a customer's purchase of packages of dog or cat food. Every time the customer purchases a package of food, it is added to the rewards program. When the customer has reached nine purchases, the tenth package of food is free. In addition, reward points can be earned on purchases of non-food products and services and available for later redemption for future purchases.

For promotions, generally in the third week of the month, an email offer is sent to customers outlining the items on promotion for that week. Birthday cards are also sent to pets on their birthdates with a 10% off coupon that can be used to purchase a treat or toy.

The company supports various animal-related charities in the local communities. Currently, funds are contributed to the local humane societies and animal adoption agencies. In addition, once a year, the company sponsors a veterinarian to come to each store, and JRP covers the costs of neutering and vaccinations for dogs and cats that are brought to the store that day. This support builds name awareness and allows the company to meet new pet owners.

Rent and occupancy costs

The rent and occupancy costs include costs for rent, maintenance and repairs, utilities, and property insurance. The property taxes are paid by the landlords at all the locations.

General and administrative

The general and administrative expenses include costs related to administrative and support functional areas, and professional fees. Also included are information technology costs for software maintenance, upgrades, and new hardware. This category does not include any salaries and wages.

Property, plant, and equipment and leases

The company leases all its properties. JRP invests in equipment, furniture, fixtures, and computers used in the stores and at head office. It also invests in leasehold improvements in each store location and its head office.

	Balance on December 31, 2022 (in thousands)	**Amortization method**
Equipment, furniture, fixtures, and computers	$5,214	Declining balance 20%
Leasehold improvements	3,886	Straight-line based on term of lease — 15 years
Total net book value	$9,100	

To sustain its existing capital assets, JRP should be spending a minimum of $1,500,000 annually in new replacement assets.

JRP leases all its locations under operating leases. The stores vary in size between 3,600 and 4,200 square feet, with the average being 3,850 square feet. In total, the company leases about 77,000 square feet for its stores. In general, the operating leases are for an initial 10-year term with a five-year renewal option at the current lease rates adjusted for inflation. Currently, the remaining leases will expire (assuming the five-year renewal is taken) between 2031 and 2036. As these leases are for premises in strip malls, they include a base rent and a variable rent up to 3% of revenues in excess of a base minimum amount.

The company's head office is located in Iberton, a small town in southern Ontario. On March 1, 2021, Uptown Leasing Ltd. (ULL) purchased this property. ULL is owned equally by Steve Hammond and his brother, Joshua. JRP now leases its head office building from ULL for $150,000 annually, which was specified under the original lease. At current market rates, the head office would rent for $160,000 annually.

Income taxes

In addition to each owning 40% of the shares of JRP, Julia and Richard each own 30% of the shares of Keto Magic Co. (KM). Julia's son and Richard's daughter each own one-half of the remaining 40% of KM shares. Julia's son and Richard's daughter run

KM. Because Julia and Richard as a group control JRP and also control KM, JRP and KM are associated. The board of JRP has agreed on an ongoing basis to allow KM to use 100% of the business limit and the full $1,500,000 available for immediate expensing of capital assets.

Data analytics

As noted above, JRP has a customer rewards loyalty plan and accumulates data related to its customers. It just completed an extensive survey of its customers and updated its customer database. The following information was gathered with respect to JRP's customers and their pets:

- Customer information: Name, address, age, how long they have owned pets, household income, years shopped at JRP store, reward loyalty membership status.
- Pet information: Type, breed, name, birthdate, age, medical issues, food purchased (fresh, frozen, organic, vegan), supplies purchased, other pet retailers used, veterinarian name, current pharmaceuticals used, tick/flea product used, other medications used, services currently used at JRP stores (grooming, training).
- Additional services: Customers were asked to indicate which of the following other services they would use if available — pet massages, pet chiropractic therapy, nutritional consulting, boarding, spa services, pet hotels, pet camps, and portrait photography.
- Customer value proposition: Customers were also asked to rank why they shopped at JRP — customer service, location, price, pet food available, hours of operation, convenience, long-time customer.

JRP plans to use this data to determine the appropriate mix of products in its stores and the other premium services it should provide.

Financial reporting and budgeting

JRP prepares its financial statements using ASPE. JRP has had the same auditors, Wiley & Zhang, LLP, since 2015. Annual audited financial statements are submitted to the JRP's bank, FrontStreet Bank. The audit for 2022 was completed in March 2023.

Historically, JRP has not paid any dividends. The shareholders' philosophy is that they should be paid a reasonable annual salary and any remaining net profits should be retained in the company for reinvestment. All four shareholders are relatively risk averse and want to keep interest-bearing debt as low as possible. They believe a strong balance sheet with relatively low amounts of debt outstanding and adequate cash on hand has been key to their success over the past years. With a strong balance sheet, the company has been able to withstand economic downturns.

Banking and financing

JRP uses FrontStreet Bank for its corporate banking, line of credit, and current term loan. JRP currently has excess cash on hand, given that Elaine likes to maintain a minimum cash balance of $400,000 available. The existing loan arrangements are described below:

1. Line of credit with FrontStreet Bank: The line of credit bears interest at prime plus 1.5% (prime is currently 2.5%). It is secured by the inventories, and the outstanding balance cannot exceed 55% of the current inventory balance. The line of credit is renewable every two years, and the current line will be renewed in May 2024. JRP must file monthly inventory reports with the bank to verify the amount of financing available. In any month, if the line of credit exceeds 55% of the inventory, then that excess portion must be immediately repaid. Currently, there has been no amount withdrawn.
2. Term loan with FrontStreet Bank: The 5% term loan is secured by the equipment, furniture, and fixtures. It is repayable in annual principal payments of $400,000 on May 1 and matures on April 30, 2024, when any remaining principal outstanding is due. This term loan has a debt covenant in that total interest-bearing debt to EBITDA cannot exceed 2.5.

   The company has found two alternative sources of funds for any new long-term investments. The terms and conditions proposed for each alternative are provided in Appendix IV.

Board meeting dialogue

The board met on May 5, 2023. Prior to the meeting, a briefing was distributed to the board members on four new potential projects:

- Purchase all the outstanding shares of Bella's Pet Friends Ltd. (Appendix V)
- Invest in Bonheur des Animaux au Lac Agathe (Appendix VI)
- Provide loan to Osler Farms Pet Kitchen Ltd. (Appendix VII)
- Change the format and product mix of the stores to provide additional pet services and eliminate pet supplies (Appendix VIII)

The meeting's agenda was announced as follows:

1. Consider the four proposed strategic alternatives.
2. Discuss any other business.

Excerpts from the discussions that took place are detailed below.

Richard: You all know my good friend Charlie Lonian, whom I met many years ago at a pet retail conference. Charlie is the sole owner of Bella's Pet Friends Ltd. (BPF), named after his own dog, Bella. Charlie's philosophy about pet products is the same as ours in that he is all about what is needed to keep pets healthy and happy. He has a chain of franchises throughout Western Canada and is looking to expand geographically as quickly as possible. Due to increasing competition at the retail level, he believes that to remain competitive, BPF needs to reach a larger critical mass of more than 70 stores nationwide to achieve economies of scale. He thinks combining our two companies will help reach this size sooner than he could on his own.

Elaine: I agree with Charlie. That is why this opportunity makes sense to me. Together, the two companies can achieve this critical mass, whereas alone, it would take far too long.

Steve: The most important concern for me is that BPF uses a franchise model and we do not.

Elaine: I will ask QSC to perform some research on franchising and provide us a summary of the advantages and disadvantages of a franchise model and what it takes to be successful franchisor, as well as compare BPF's key ratios to our ratios. This will be helpful information, regardless of the decision we make.

Julia: But with a franchise model, we lose control over the stores. Right now, our reputation is built on the level of customer service we give pet owners, and if we acquire another company, we want to keep this point of differentiation. I don't want to rely on franchisees to be as concerned about this as we are. I see this as destroying our reputation.

Elaine: Perhaps we could keep the two companies operating under separate brand names, since the stores are quite different.

Julia: This just seems to make everything more difficult. Then we have to choose where we spend our resources — growing JRP or growing BPF. I don't want to have to make this choice, since my passion is with JRP.

Richard: I am hoping that this acquisition would give us incentive to change up our product mix. BPF currently sells products that we have been considering. We could use Charlie's knowledge and experience in these markets to assist us with changes required.

Steve: If I understand the deal that is being considered, JRP would acquire 100% of BPF's outstanding shares and in return, Charlie would receive 25% of JRP's outstanding shares and cash of $5.5 million. This seems to undervalue the shares of JRP.

Richard: I should also mention that the reason Charlie wants to sell to us is that he wants to have more free time. Right now, as the sole shareholder of the company, he works long hours and has not been able to find the right people to employ to help him manage the growth. He has always been impressed with our company and feels that a merger would be beneficial for all parties.

Elaine: Charlie also mentioned that BPF has some loss carryforwards that we might be able to use to reduce our combined taxes payable. I think we should ask QSC about any tax issues that would arise on change of control of BPF.

Julia: Since I don't really know Charlie, I may not be prepared to have him as a shareholder in our business. I am also concerned about the voice that franchisees will have in our policies and procedures. We will also have to listen to their concerns, which will make operational changes and decisions more difficult and time consuming.

Steve: What about the reward loyalty programs — do we combine the two? I think that the current programs are quite different and BPF has only about 50% of its customers signed up.

Julia: I noticed that BPF has a high amount of debt. We have always been reluctant to take on debt and only added it when we really needed to. I am not sure that taking on this added risk is warranted. But let's move on to our next proposal. Steve?

Steve: All of you know my long-time friend Gord Ly and his wife, Irene. Gord and I have been discussing opening a premier dog camp for quite a while now. Gord is looking for a change and has also identified this as a need. After months of research, he found an ideal location. The camp is located in Quebec on a lake, in a beautiful setting. It is close to two of JRP's stores in Quebec, which are located in towns that represent about 25% of the potential customers that would use these facilities. Gord has been a veterinarian for 20 years and has operated his own boarding kennels during this time. The plan is for Gord and Irene to operate the camp. Irene is a dog trainer, specializing in search and rescue training.

Richard: Gord has been our veterinarian for our dogs for ages, so we know him well. He is really good at what he does, and his kennels are spotless and inviting compared to others that I have seen. But he has worked for himself for so long making his own decisions, I am not sure he would take direction well from us.

Julia: I think he is ready for a change and he is so excited about this idea. I would see us working together on this project, since he has a lot to bring to the table in the way of knowledge. I think it could be a win-win for all of us.

Elaine: It is a significant upfront investment cost. If the camp is not successful, it would likely take us a while to sell the property. I know the property Gord likes has been up for sale for about a year or so. If the camp is not initially successful, cash flow from the stores will have to be diverted to cover the losses. This is a riskier investment than our current operations.

Steve: Deluxe dog camps are becoming popular but currently there are no competitors in the surrounding area that we are considering. I think it is a case of getting into this market early, taking the risk, and it will pay off.

Julia: It also gives us another niche that make us different from the other retailing competitors.

Richard: What happens if Gord and Irene leave? We will be left with trying to manage the camp ourselves.

Julia: That is a good point. However, one advantage of a dog camp is that we can order all the food and supplies from our current suppliers. This will give us some economies of scale.

Steve: Gord already has some experienced people interested in working at the camp. This means we will be able to start with really experienced staff. And Gord and Irene both know the right people to contact to hire more.

Richard: This camp really does not do much to build our national reputation.

Julia: That may be true, but what is wrong with that, as long we make a good profit from the investment?

Elaine: I see the plan is also to provide dog owner accommodations. I am not sure we should do that, since we know nothing about running a hotel.

Steve: If we must, we can hire a person with this experience to run that part of the camp. But I think it is an important aspect to keep, since it will really differentiate us from some of the current operators who only have accommodation for the dogs.

Richard: What about cats? Would we ever expand this to also accept cats?

Steve: That is not currently in the plan, but of course could be considered later. Right now, I think there is more demand for this type of experience from dog owners. I also forgot to mention that if we go with this proposal, Gord is prepared to invest up to $3 million in preferred shares in JRP, the terms of which are included in the summary of financing alternatives (Appendix IV).

Julia: Now for the next idea I want to propose to the group. I have been approached by my good friend Lena about investing in her vegan organic dog food company called Osler Farms Pet Kitchen Ltd. (OFPK). JRP has been purchasing increasing amounts of Lena's food since last year, and we have customers who are constantly asking for this product. To meet this increased demand, Lena must expand her production facilities.

She has approached me about JRP advancing her a loan for $6 million to finance the new production facility. In return, she said that OFPK will pay JRP 20% of its total operating profits each year until the debt comes due in December 2032. She has also suggested that at some date between now and then, if both parties agree, this loan could be converted into common shares of OFPK, although this would not be part of the terms and conditions of this loan. The number of shares it could be converted into would ultimately be dependent on the valuation of the shares of OFPK at that date. She also said that she wanted me to come on as a director of OFPK during the period the loan is outstanding, since she values my opinion from a retail perspective. I think this is a unique opportunity for us to get into the manufacturing segment of this industry and to gain some inside knowledge. We can test the relationship, and if it works out and both parties agree, we can make an equity investment, and if it doesn't work out, we get our funds back.

Steve: I think it is a really good idea. OFPK has a lot going for it, since it grows many of the ingredients that are used in its food, giving it a reliable and guaranteed supply. And vegan organic pet food is being demanded more and more by our store customers. We can even expand our product mix to include more of this product, since it has been successful in the stores and especially considering the discount Lena is prepared to give us.

Richard: I have some real concerns with this proposal because the minimum return is only 3%, which is well below a reasonable return based on the risk. We are, in fact, sharing the risk of making the profits but will not have much control over the day-to-day activities to generate the profits. We will be relying solely on Lena for this. Also, our experience is in pet stores, and this is a dog food company. I am not sure if we understand what it takes to be successful in the dog food industry.

Julia: Lena is very well respected in the industry. And don't forget that she is also a canine nutritionist, so we know that her products will be well-balanced nutritionally. And I will be on the board and able to provide our input into decisions. As well, in addition to analyzing the proposal itself, we should have QSC complete some additional industry research into the pet food industry for us and provide us with a bit more background on the trends in this industry, especially as they relate to ingredients, to help us make this decision.

Elaine: We will need QSC to prepare a cash flow projection for OFPK, since I want to be sure there is sufficient cash flow to pay the amounts that we are owed each year and also when the loan comes due.

Steve: I like the idea that OFPK will give us a discount on any food that we purchase from it for the stores, since this will also increase our retail profits. But the amount of this discount also needs to be part of the terms of the agreement.

Julia: I don't think Lena will have a problem with this. I think she really wants to make this work like an alliance that may eventually evolve into our two companies being partners.

Richard: Even though they want you to be a director, how much say will you really have Julia, given that the other three directors are family? Although they might listen to you, I doubt they will take your advice.

Elaine: The success of OFPK is totally reliant on Lena. If something happens to her, or the company's reputation is tainted in any way, we won't receive much return on this loan. I am really against taking that amount of our resources and investing with no guaranteed returns. I think a more reasonable pre-tax return might be around 10%.

Julia: I think the idea is good. And I have also been thinking that we could use the stores for taste testing. Customers' dogs could come in and try the food and pet owners could see how they liked it prior to buying. I think this would help attract customers to the store and increase sales of the product.

Steve: Great idea. I know that other competitors are doing this to try to get customers to actually visit the stores, and this could help differentiate us from the other non-pet and online retailers.

Richard: I don't like the fact that there does not seem to be any way for us to get repaid earlier if it looks like the forecasts are not being met or we disagree with the direction that OFPK is going.

Elaine: What does operating profit include anyways? There are methods that can be used to lower operating profits in any year, so we would want to ensure that the definition is properly laid out. For example, the cost that is paid to the farm for the ingredients could easily be increased, transferring profit to the farm and lowering the profit for OFPK.

Steve: I like that they have a successful subscription model and online presence. I think this indicates that they know what they are doing and not only understand the trends in the market but have adapted their strategies to embrace them. Any investment has its risks, and I think this one is likely lower than some of the others we have been considering.

Julia: Let's move on to our last proposal. Elaine, I think you have the information on this?

Elaine: As you know, for a while now I have been suggesting that we renovate our stores to provide more pet services. I have drawn up some plans that show how we can use our store space more efficiently. If we move the food displays and eliminate all the pet supplies, we can add three treatment rooms. And this can be done in all our stores regardless of their size. My plan is to have treatment rooms that will be available for pet massages, chiropractic therapy, and nutritional counselling. These services will attract affluent customers who are concerned about the health of their pets, which is the segment we have experience in attracting and have been successful with in the past. Providing the services will help us differentiate from the online retailers, since this service can only be provided in person. I am going to ask QSC to prepare a contribution margin analysis and a payback period analysis for each of the new services and ignore any tax implications of capital cost allowance (CCA), as is our normal policy. Based on my research, we should accept this type of project if it pays back in less than three years.

Steve: I do not think we will attract any new customers, since we have already most of the target customer segment in the local market already. I also think that the assumptions for reaching capacity so quickly are unrealistic.

Julia: The proposal allows us to build on our current customer base, and they have already told us through the surveys that they are interested in us offering more pet services. We will be able to sell different types of services to our existing base, and there is nothing wrong with that. It will allow us to retain our existing customers and not lose them to competitors if we continue to adapt to their changing needs. Our customers will become even more loyal. I like the idea.

Richard: I am not sure we should do away with the pet supplies. The sale of pet supplies brings the customers into the store. I am also concerned about our existing distributors for these pet supplies. In some cases, we have contracts in which we have agreed to buy minimum quantities. If we break these contracts, there will be penalties, and this may tarnish our reputation. As well, I am not sure how it will impact the delivery of the treats and other products that we want to continue to purchase. This reduction in volumes will also increase our unit costs.

Elaine: Once these treatment rooms are built, we can always use the rooms for other types of services if it becomes warranted in the future, such as pet photography or veterinarian services. The redesign gives us lots of flexibility.

Richard: I think using contractors to provide this service is risky. We will be relying on them to show up for each appointment, and to provide exceptional customer service. Wouldn’t it be better to hire our own employees?

Elaine: I think we can manage these contractors. We can always let a contractor go if they are not performing up to our standards. We might have to sign them to year-long contracts to ensure that they are committed to growing the business.

Steve: Managing the contractors will be another responsibility for the store manager to monitor, since we are not at the stores. Somehow, we will need to get feedback from the customers about their satisfaction with the services they are receiving. I don’t think the managers currently have time for this.

Julia: I disagree. The managers have the time, and it is simple to ask customers how they found the service. We could even follow up with a phone call after the initial visits to see how it is going, which gives us another contact point with the customer and a chance to get immediate feedback.

Steve: The conversion of 10 stores in 2023 and 10 stores in 2024 is really aggressive, and I don’t believe this rate can be achieved. Perhaps we should slow it down to five stores a year instead. I don't think that I can manage 10 renovations at once. I am also not sure we can do this under some our existing lease arrangements.

Elaine: I think we need to be aggressive to stay ahead of the competition. During my research, I noticed that there were more of these pet services opening in our local markets. If we leave it too long, our customers will already be getting these services elsewhere, and it might be difficult to change. I have tentatively booked the builders that we regularly deal with in case we decide to go ahead with the renovations. I want their time slotted in so we can get right at it. If we decide not to renovate, I can cancel.

Richard: One concern I have is that I don't think there will be a lot of repeat business. Usually, these types of services are used when there is problem that needs to be resolved. As long as the problem persists, the pet owner will use the services, but once the problem is resolved, there may no longer be this need. Therefore, these services are not like grooming or pet food where customers need these items on a regular basis. This may make the revenues volatile and require more marketing costs to continuously generate.

Julia: I agree with Elaine that waiting too long is not an option. I also think that we could offer a discount on these services to loyalty reward customers. This would make more customers sign up and attract new customers from existing competitors that do not offer a loyalty rewards program.

Elaine: Before we make any final strategic decisions, we will want to understand the impact on our existing customer base and their needs. To help us, we recently completed our customer survey, for which we had an incredible 75% response rate. I suggest we ask QSC to assist us with analyzing this data. While we gathered a wide range of information with respect to JRP's customers and their pets, let's provide the relevant details to QSC for analysis on a selection of 1,000 customers; these details are included in the Excel file 'JRP.Surveydata'. The information should give us a good idea of what makes up our customer base — not only the pet parents but also the pets.

Julia: Yes, I agree. We should ask QSC to analyze the results to help us formulate a strategy going forward and determine what our product and service mix should be in the stores. I would also like to know if we are collecting and storing the customer data properly.

Elaine: I also need QSC's assistance with respect to security controls over inventory in our stores, since lately we are showing increasing inventory shrinkage in a couple of our stores. I would like QSC to provide some general recommendations and policies for controlling physical access and increasing physical security in our stores to prevent loss of inventory.

Julia: Great ideas! Are there any other matters we need to discuss?

Steve: As you know, ULL, a company owned equally by my brother Joshua and myself, recently purchased JRP's head office building as part of our portfolio of rental properties. I am wondering if QSC could review any accounting implications this might cause for JRP, since I am a shareholder in both companies.

Elaine: There is another issue that has arisen. As you know, in the past, we have asked store managers to sign themselves and their employees up for the required training courses each year. Managers use their own personal credit cards to pay for these courses, since we don't issue company-wide credit cards. Once the course is taken, the manager submits the certificates of completion for all the employees to head office. In return, we then reimburse the store managers for the fees paid after they have provided proof of payment. I have just learned from several store employees that one of our store managers, Scott Gilbert, who has been with us for five years as a manager, has been providing fake certificates and fake receipts of payment for courses for the past three years. As you know, many of our product manufacturers require that we take their training as part of their contracts so that we are knowledgeable about their products. We must report to these manufacturers that all our employees are up to date on their training programs annually. But now, we have a manager and his store employees that have not taken any training courses for the past three years and we have reimbursed for fees that were never paid. As well, we have lied to our manufacturers.

Julia: I am assuming you gathered the proof of this?

Elaine: I have interviewed all the store employees that are impacted, and they all say that none of them have had courses for the past three years. In my interviews, it appears that all the employees knew what was going on, but Scott had said he would fire them if they reported they were not getting their training. I wanted to discuss this with all of you to decide what our next steps should be.

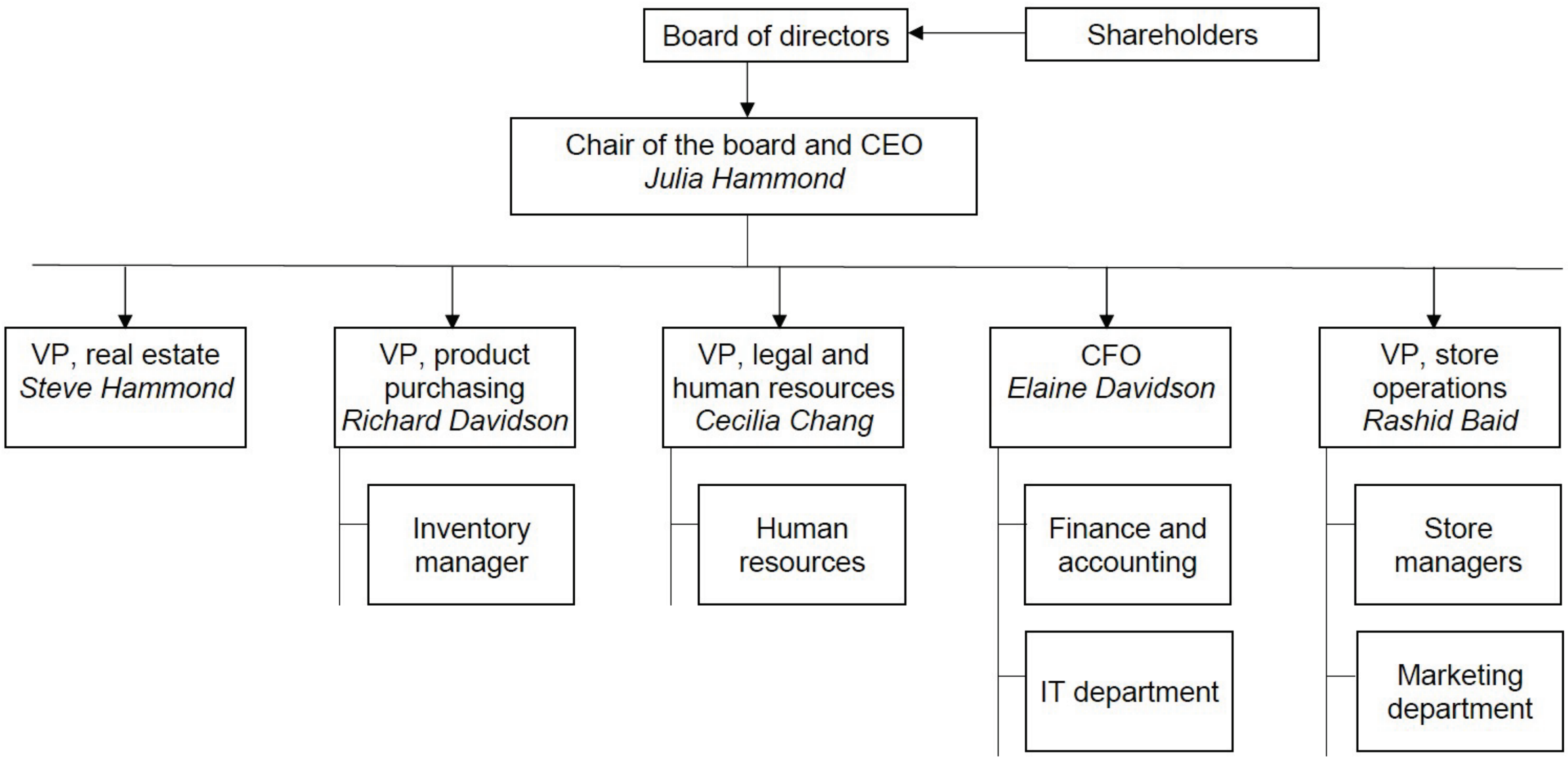
Julia: Let's ask QSC's opinion on this matter and advise on what our next steps should be.

Elaine: Good. I have one more request of QSC that relates to the bonus incentive plan we currently have for our store managers. I think we need to add a component that will encourage them to promote the company as being a good corporate citizen and embrace our core value of caring, being involved with, and giving back to the local community. Right now, as you know, it has been us, the shareholders, that have had to come up with the ideas and implement them across the company. I want to incentivize store managers to be creative and proactive and then be rewarded for these ideas and actions. I would like QSC to provide some analysis as to why this would be beneficial for our company and how the incentives might work. I would also like some examples of what could be done to give back to the community, how our progress could be measured, and what internal policy changes and rewards might be implemented.

Julia: I will add this to the list of items we want QSC to include in the report.

Table of appendixes

APPENDIX I
ORGANIZATIONAL CHART
Prepared by Elaine Davidson



APPENDIX II
J.R. PETS INC. FINANCIAL STATEMENTS
Prepared by Elaine Davidson

J.R. Pets Inc.
Statement of earnings and retained earnings
For the years ended December 31
(under ASPE)
(in C$'000s)

	AUDITED 2022 $	**AUDITED 2021 $**	**AUDITED 2020 $**
Revenue	38,500	36,780	37,800
Cost of goods sold	21,020	19,960	20,046
Gross profit	17,480	16,820	17,754
Expenses			
Amortization	1,599	1,503	1,598
Direct store costs	590	420	550
Marketing and advertising	2,090	2,300	1,975
Wages and salaries	7,258	6,980	7,210
Rent and occupancy costs	3,840	3,710	3,640
General and administrative	1,190	1,060	1,090
Total expenses	16,567	15,973	16,063
Operating income	913	847	1,691
Interest expense	116	137	157
Income before taxes	797	710	1,534
Income taxes	215	192	414
Net income for the year	582	518	1,120
Opening retained earnings	6,753	6,235	5,115
Dividends	-	-	-
Closing retained earnings	7,335	6,753	6,235

APPENDIX II (continued)
J.R. PETS INC. FINANCIAL STATEMENTS
Prepared by Elaine Davidson

J.R. Pets Inc.
Balance sheet
As at December 31
(under ASPE)
(in C$'000s)

	AUDITED 2022 $	AUDITED 2021 $	AUDITED 2020 $
Assets			
Current assets			
Cash and cash equivalents	1,091	1,342	1,120
Accounts receivable	285	280	250
Inventories	2,360	2,230	2,190
Prepaid supplies and expenses	347	170	140
Total current assets	4,083	4,022	3,700
Property, plant, and equipment — net	9,100	8,659	9,192
Total assets	13,183	12,681	12,892
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	2,088	1,740	1,908
Income taxes payable	160	170	280
Current portion — term loan	400	400	400
Total current liabilities	2,648	2,310	2,588
Future income taxes	400	418	469
Long-term debt — term loan	1,800	2,200	2,600
Total liabilities	4,848	4,928	5,657
Shareholders' equity			
Share capital —1,000,000 common shares outstanding	1,000	1,000	1,000
Retained earnings	7,335	6,753	6,235
Total shareholders' equity	8,335	7,753	7,235
Total liabilities and shareholders' equity	13,183	12,681	12,892

APPENDIX II (continued)
J.R. PETS INC. FINANCIAL STATEMENTS
Prepared by Elaine Davidson

J.R. Pets Inc.
Statement of cash flows
For the year ended December 31
(under ASPE)
(in C$'000s)

	AUDITED 2022 $	**AUDITED 2021 $**
Operating activities		
Net income for the year	582	518
Amortization	1,599	1,503
Future income taxes	(18)	(51)
Change in working capital balances		
Accounts receivable	(5)	(30)
Inventories	(130)	(40)
Prepaid expenses	(177)	(30)
Trade payables and accrued liabilities	348	(168)
Income taxes payable	(10)	(110)
Total cash flow from operating activities	2,189	1,592
Investing activities		
Investment in property, plant, and equipment	(2,040)	(970)
Financing activities		
Repayment of term loan	(400)	(400)
Dividends paid		
Total cash flow from financing activities	(400)	(400)
Change in cash	(251)	222
Opening cash and cash equivalents	1,342	1,120
Closing cash and cash equivalents	1,091	1,342

APPENDIX III
INDUSTRY BENCHMARKS
Prepared by Elaine Davidson

Industry benchmark (pet retail)	Industry average
Annual revenue growth rate	2.3%
Current ratio	1.7
Days in receivable	32 days
Days in inventory	58 days
Days in payable	52 days
Total debt to assets	52%
Return on assets	10.5%
Gross profit margin	42%
Marketing costs as a percentage of revenue	3%
Wages and salaries as a percentage of revenue	14%
Rent and occupancy costs as a percentage of revenue	11%
Operating profit margin	5%
Net profit margin	4%
Revenue per employee	$194,000
Sales per square foot	$496.00

APPENDIX IV
FINANCING ALTERNATIVES
Prepared by Elaine Davidson

1. FrontStreet Bank term loan: FrontStreet Bank is prepared to renegotiate the existing term loan and issue another $5,000,000, increasing the term loan outstanding to $6,800,000. (The current balance is $1,800,000 after the May 2023 repayment.) The revised interest rate will be 8%, payable monthly, and the monthly principal amount due is $56,667 until the loan matures in 10 years. The loan will be secured by a general security on all assets. The company may repay 10% of additional principal on the anniversary date of the loan each year. The covenant remains in that total interest-bearing debt to EBITDA cannot exceed 2.5.
2. Gord Ly: Gord has offered to invest $3,000,000 into JRP in return for 30,000 preferred shares but only if his dog camp proposal is accepted. The preferred shares have a cumulative annual dividend of 3% but are convertible into common shares at 10% below current market value at the time of conversion. The preferred shares are convertible at the holder's option any time after 2028. The preferred shares are also redeemable at $105 each any time after 2031 at the company's option.

APPENDIX V
ACQUIRE BELLA'S PET FRIENDS LTD.
Prepared by Richard Davidson

Charlie Lonian is the sole owner of Bella's Pet Friends Ltd. (BPF), a pet store franchisor specializing in superior-quality pet food, supplies, and services to keep dog and cat pets healthy. BPF's most recent financial statements are provided below. BPF is a chain of 30 franchises located throughout Western Canada, including Manitoba, Alberta, British Columbia, Northwest Territories, and Yukon. Its customer base is affluent customers who care about the health of their pet. The stores are situated in suburban areas and big city centres.

With a global pandemic impacting the sale of franchises, the last franchise was opened in 2019. However, interest in owning franchises has now picked up again, and BPF management is currently reviewing and assessing applications for approval. Charlie is looking to expand geographically as quickly as possible and has a plan in place to expand BPF to 55 locations by 2026. Some of this expansion is potentially in Ontario, although the final sites have not been yet decided. When these BPF stores are added to the 20 currently owned by JRP, the combined entity would have 75 stores by 2026.

The stores, all owned by franchisees, offer similar pet food products as JRP. Currently, the percentage of franchisees' revenues by product and services is as follows:

- 35% pet food (fresh and frozen) and treats
- 20% pet supplies
- 15% pharmaceuticals and medications
- 30% pet services including pet massage, pet chiropractic therapy, and pet nutritional counselling

Sales that occur at the franchise level to customers are known as system sales. The average size of a store is 4,800 square feet.

BPF has a strong online presence that is operated by the head office, but the sales are allocated to the franchisees as part of their system sales. Any customer purchasing online must identify with a specific store prior to completing their order. The intent of this is to not undercut sales for the franchisees. BPF also has a customer rewards loyalty program. Currently, BPF has a total customer database of 110,000, of which 50% of are members of the loyalty program. This is in line with industry averages.

APPENDIX V (continued)
ACQUIRE BELLA'S PET FRIENDS LTD.
Prepared by Richard Davidson

Franchisees are selected after a rigorous application review. The franchise agreement requires the franchisee pay an initial fee of $50,000 per store location that is not refundable and covers initial set-up, training, and support. Ongoing annual franchise fees are 6% of total gross system store revenues. This gives the franchisee the right to use the BPF name, access the company's business processes and procedures, use the inventory management and POS systems, and access ongoing training and support as needed. In addition, there is an annual advertising fee of 2.5% on total annual gross system store revenues charged to franchisees to help cover corporate-paid regional marketing costs. The franchisee is responsible for paying for all the equipment and fixtures at the locations. The franchise agreement can be terminated by BPF if the franchisee does not comply with all the terms and conditions of the agreement.

BPF selects the store locations and signs the lease directly with the landlord. BPF then subleases to the franchisee under the same terms and conditions, so these lease costs are simply a flow-through cost for BPF.

BPF has agreements with manufacturers and distributors, and due to its volumes, can purchase products at reduced prices. Each franchisee must purchase at least 55% of their products for resale directly from BPF. BPF earns a 10% gross profit margin on the resale of these products to the franchisee. The franchisee, in turn, earns an average gross profit margin of 30% on the resale to the end customer.

Franchisee fees are payable monthly and are due within 20 days of month end. Franchisees must pay BPF for inventory product purchases within 14 days of receipt.

Based on current potential franchisee applications, Charlie estimates the number of new franchise stores to be added each year as follows:

	2023	**2024**	**2025**	**2026**
Opening number of franchises	30	38	45	50
New franchises in the year	8	7	5	5
Total franchises at the end of year	38	45	50	55

Based on past experience, system sales in the first year a new store is opened should average $950,000 per store. In the second year of operations, the average sales are $1,900,000 per store. By the third year, the store should reach mature sales of $2,500,000 per store. Note that these are sales in 2022 dollars, and revenues thereafter are expected to increase at the rate of inflation of 1.5% annually.

APPENDIX V (continued)
ACQUIRE BELLA'S PET FRIENDS LTD.
Prepared by Richard Davidson

Charlie has estimated that for each new franchisee that opens during the year, BPF incurs one-time marketing costs of $25,000 and one-time other costs of $30,000 to cover travel, training, installation of software, and so on.

Annual ongoing operating costs and forecast assumptions for BPF are as follows:

Direct costs related to servicing the franchisees (includes the net rent expenses)	4% of total gross system sales
Wages and salaries	$1,250,000 for 2023 and then increase annually at the inflation rate
Annual marketing costs	3% of total gross system sales
Head office occupancy costs	$670,000 for 2023 and then increase annually at the inflation rate
General, administrative, and IT costs	$560,000 for 2023 and then increase annually at the inflation rate

BPF spends $500,000 annually for furniture and fixtures and $650,000 for computer hardware and systems software. These assets qualify for the CCA declining balance rate of 20% and 55%, respectively, and are eligible for the Accelerated Investment Incentive. Assume the Accelerated Investment Incentive is in effect for all relevant years.

BPF owns land and buildings for its head office and a warehouse. The present value of the CCA tax shield on all existing assets is $750,000. The warehouse is used as a central point of distribution to its stores and online customers. Manufacturers and distributors ship to the warehouse for goods that are going to be resold to the franchisees. For all other products, the suppliers ship directly to the franchisees.

If JRP acquires BPF, BPF will be a wholly owned subsidiary of JRP, so JRP and BPF will be associated for tax purposes. As a result, after the acquisition, BPF will pay income tax at 27%. Based on her research and discussions with friends who are experts, Elaine has determined that an appropriate weighted average cost of capital is 15% for this company. The industry long-term growth rate is 2%.

APPENDIX V (continued)
ACQUIRE BELLA’S PET FRIENDS LTD.
Prepared by Richard Davidson

Bella’s Pet Friends Ltd.
Statement of earnings and retained earnings
For the years ended December 31
(prepared under ASPE)
(in C$’000s)

	AUDITED 2022	**AUDITED 2021**
Franchisee total system sales	72,100	69,420
Revenue		
Total franchise fees	6,130	5,900
Product sales	27,750	26,730
Total revenue	33,880	32,630
Expenses		
Product purchases	24,975	24,057
Franchisee set-up costs	-	-
Direct operating costs — franchisees	2,970	2,860
Amortization	370	350
Wages and salaries	1,100	1,060
Marketing and sales	1,950	1,850
Head office occupancy	540	530
General, administration, and IT	430	390
Total expenses	32,335	31,097
Operating income	1,545	1,533
Interest expense	400	422
Income before taxes	1,145	1,111
Income taxes	106	105
Net income for the year	1,039	1,006
Opening retained earnings	3,802	2,796
Closing retained earnings	4,841	3,802

APPENDIX V (continued)
ACQUIRE BELLA'S PET FRIENDS LTD.
Prepared by Richard Davidson

Bella's Pet Friends Ltd.
Balance sheet
As at December 31
(prepared under ASPE)
(in C$'000s)

	AUDITED 2022 $	AUDITED 2021 $
Assets		
Current assets		
Cash and cash equivalents	50	210
Accounts receivable	1,970	1,950
Inventories	1,094	980
Prepaid supplies and expenses	410	390
Total current assets	3,524	3,530
Property, plant, and equipment — net	10,224	9,484
Total assets	13,748	13,014
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	2,257	2,190
Income taxes payable	50	62
Current portion — term loan	360	360
Total current liabilities	2,667	2,612
Long-term debt — term loan	6,140	6,500
Total liabilities	8,807	9,112
Shareholders' equity		
Share capital — 100 common shares issued	100	100
Retained earnings	4,841	3,802
Total shareholders' equity	4,941	3,902
Total liabilities and shareholders' equity	13,748	13,014

APPENDIX V (continued)
ACQUIRE BELLA'S PET FRIENDS LTD.
Prepared by Richard Davidson

Bella's Pet Friends Ltd.
Statement of cash flows
For the year ended December 31
(under ASPE)
(in C$'000s)

	AUDITED 2022 $
Operating activities	
Net income for the year	1,039
Amortization	370
Change in working capital balances	
Accounts receivable	(20)
Inventories	(114)
Prepaid expenses	(20)
Trade payables and accrued liabilities	67
Income taxes payable	(12)
Total cash flow from operating activities	1,310
Investing activities	
Investment in property, plant, and equipment	(1,110)
Financing activities	
Repayment of term loan	(360)
Dividends paid	-
Total cash flow from financing activities	(360)
Change in cash	(160)
Opening cash and cash equivalents	210
Closing cash and cash equivalents	50

APPENDIX VI
INVESTMENT IN BONHEUR DES ANIMAUX AU LAC AGATHE
Prepared by Steve Hammond

Gord Ly, a friend, came to me about six months ago with a proposal for a premier pet camp. Gord is a veterinarian and his wife, Irene, has been involved in training dogs for the past 20 years. They have lived in Quebec all their lives. Gord and Elaine’s plan is to run a high-end boarding facility for dogs. In the future, cat boarding may be also provided, but that is not part of the current plan. The difference between this and regular boarding facilities is that this facility would have a camp-like atmosphere, where the dogs spend most of their time outdoors swimming, running, playing, and taking optional training courses in search and rescue.

The camp would be open all year round and dogs would be booked for stays for a minimum of three days. Gord expects that the average stay will be 14 days. In addition, there would be facilities available for dog parents to come and spend some time if they wish. This would allow the dog parents time to be away with their pets, but also see what a dog’s life is like at the camp. After seeing first-hand how the camp operates day to day, the pet owners would leave assured that their pets are well cared for. The plan is to build one camp first, and if successful, expand to other locations.

I was excited about the idea and agreed that JRP would look more closely at this proposal once Gord found a possible site and prepared a business plan. Since that time, Gord has travelled throughout Ontario and Quebec, looking at competitors’ camps and possible properties. Last week, Gord called me and said that he had found the perfect remote property located about a one-and-a-half-hour drive away from affluent populated towns and cities. Based on purchasing this property, Gord and Irene have suggested naming the camp Bonheur des Animaux au Lac Agathe (BALA).

The property Gord identified currently operates as an exclusive children’s overnight camp with superior facilities and amenities. The camp is located on 30 acres of land in northern Quebec. The property has a lake, fields, and wooded areas. Some of the existing cabins would be used to house the staff and dog owners who wish to stay overnight. The existing main camp building currently has the kitchen and dining room, as well as a large community room that would be used by the resident staff and pet owners. Additional buildings would be built for the dogs’ sleeping quarters and indoor play facilities. Dog owners could also pay for grooming if they wished. There would be a full-service veterinary clinic on site in case the dogs need care while they are at camp.

Gord’s proposal is that JRP would purchase the assets and incur other costs necessary to set up and operate the camp and would hire him and Irene to run the camp on a full-time basis. Gord has visited other similar locations and prepared his proposal by taking what he thinks are the best features from these other camps.

APPENDIX VI (continued)
INVESTMENT IN BONHEUR DES ANIMAUX AU LAC AGATHE
Prepared by Steve Hammond

Gord and Irene will be solely responsible for hiring the staff, which Gord wants to be highly experienced, dog-loving, and caring individuals. Since he would be giving up his current veterinarian practice, he has already talked to a few of his assistants who have indicated they are interested in coming to work at the camp.

The existing camp is available at a cost of $3,000,000, consisting of the following:

- Land: $950,000
- Existing buildings: $1,400,000
- Existing equipment: $650,000

Additional costs to be incurred include the following:

- Additional buildings: $800,000
- New equipment, including security cameras around the property: $350,000
- New fencing: $500,000
- New computers: $150,000
- Application software: $90,000

All the assets purchased would qualify for the Accelerated Investment Incentive. The CCA claim on applications software is limited to 100%.

	Buildings	**Fences**	**Equipment**	**Computer equipment**	**Applications software**
CCA rate — all declining balance	6%	10%	20%	55%	100%
Amortization rate — straight-line	20 years	14 years	8 years	4 years	4 years

At the end of the project life, expected to be the end of 2029, the land and buildings are expected to be sold (net of selling costs) for $1,150,000 and $1,400,000, respectively. The remaining assets will have little salvage value at this time. It is expected that there will still be balances remaining in the CCA classes when these assets are disposed of.

Gord has prepared the following estimates for future projections. He hopes that BALA would be operational by early January 2024. The camp will have a capacity to board 60 dogs and be open 365 days per year. The camp has 30 pet parent rooms available.

APPENDIX VI (continued)
INVESTMENT IN BONHEUR DES ANIMAUX AU LAC AGATHE
Prepared by Steve Hammond

Revenue projections are as follows:

	2024	2025	2026	2027	2028	2029
Daily rate for each dog	$105	$110	$115	$115	$115	$115
Occupancy rate	50%	60%	75%	80%	80%	80%
Daily rate per cabin for pet owners	$200	$200	$200	$200	$200	$200
Occupancy rate for the pet owner cabins	20%	20%	25%	30%	30%	30%
Training fees	$500,000	$500,000	$600,000	$600,000	$600,000	$600,000
Grooming fees	$65,000	$65,000	$85,000	$85,000	$85,000	$85,000

There would be initial inventory costs of $35,000. Gord has also estimated the operating costs as follows:

	2024	2025	2026	2027	2028	2029
Direct operating costs — food, supplies, medicines	15% of total annual revenues					
Wages and salaries	$680,000	$900,000	$1,020,000	$1,020,000	$1,020,000	$1,020,000
Marketing costs	$100,000	$100,000	$75,000	$60,000	$60,000	$60,000
Occupancy costs — heat, hydro, property taxes, etc.	$110,000	$110,000	$110,000	$110,000	$110,000	$110,000
General and administrative costs (Note 1)	$130,000	$150,000	$150,000	$150,000	$150,000	$150,000

Note 1: Elaine agreed that general and administrative costs would be handled by JRP's existing head office staff but would be allocated for budgeting purposes to BALA.

I also agreed to cover 50% of Gord's travel costs incurred to date to visit competitors' camps and find the appropriate site. The total costs incurred are $70,000.

Elaine suggested that 16% be used as the discount rate for this capital budget. JRP currently has an income tax rate of 27%.

The current plan is for JRP to directly purchase the assets and incur the costs to operate the camp.

APPENDIX VII
LOAN TO OSLER FARMS PET KITCHEN LTD.
Prepared by Julia Hammond

I have a good friend, Lena Baranski, who owns a farm along with her husband, Piotr, in southern Ontario. The farm has been in the family for generations. The farm is now certified organic. Lena is a trained nutritionist who specializes in canine nutrition.

About five years ago, Lena started to make small batches of “farm to pet bowl” vegan, organic dog food for sale. She started off selling at the local farmers’ markets, but the demand just kept increasing and so she incorporated Osler Farms Pet Kitchen Ltd. (OFPK) to produce the food on a larger scale. Today, at the farm, she has a large production facility and employs 30 employees. The ingredients used in the food are either grown on Lena’s farm or sourced locally and include blueberries, apples, strawberries, raspberries, broccoli, carrots, celery, and kale. Ingredients grown on the farm are sold at cost to OFPK. For the other ingredients, OFPK has supplier agreements that fix the price for a period. Plant-based proteins and fillers consisting of beans, peas, chickpeas, lentils, rice, and corn, where not grown on the farm, are sourced from other organic growers. There are no additives, colours, or other artificial ingredients. The packages are all nutritionally labelled. The food can be refrigerated for up to one week or frozen for up to four months. The fact that the food is certified organic commands a premium compared to other fresh dog food. In addition, customized food is also available to customers by request, which sells at an even higher premium.

OFPK sells to specialty pet stores, natural food stores, and directly to customers online. The company has a “farm to pet bowl” subscription service, where customers receive their pet food delivered weekly, direct to their home. Currently, 90% of OFPK customers are repeat customers, with the number of new customers growing each month.

Sales to stores are made with 30-day payment terms, although historically pet stores have not paid on time. Online sales and subscription sales are made by credit card, so there are minimal receivables. Inventory includes raw materials, packaging, and finished goods. Finished goods are in inventory for less than seven days, but the average of all inventories is 14 days on hand.

The pet food sold to pet stores is a line of five different products that OFPK manufactures. Pet owners who purchase directly from OFPK have the option of purchasing the already prepared and packaged food, or customizing their pet food depending on their dog’s breed, lifestyle, and age and selecting the ingredients they want from a long list of items. Those customers who choose the subscription model are given nutritional counselling for their pet by Lena. From this initial consult, Lena can prepare the food that will be best for the owner’s dog. Customer complaints, although very few, are handled immediately by Lena, who contacts the customer directly to rectify the issue as quickly as possible.

APPENDIX VII (continued)
LOAN TO OSLER FARMS PET KITCHEN LTD.
Prepared by Julia Hammond

When OFPK was incorporated, Lena and Piotr invested $3 million to purchase the common shares. The bank provided a 6% long-term loan that is repayable in annual principal payments of $640,000 paid evenly throughout the year. The existing plant and equipment are security for this loan. The bank has also offered a $1 million line of credit, at 4% interest, that is available if required.

Based on customer demand, OFPK needs more production capacity, and Lena needs to build a new facility for a cost of $6 million in 2023. I have been telling Lena that JRP is looking for new investments for the future. Based on this discussion, Lena approached me about JRP providing a loan of $6 million to finance the new expansion in 2023 with the loan being advanced by July 1, 2023. The loan would be fully repaid on December 31, 2032. Lena is prepared to pay JRP 20% of OFPK's total operating profits with a minimum of 3% annual return on the loan amount outstanding. Interest payments would be made by December 31, based on the operating profits earned for the year ended October 31. The first payment on December 31, 2023, would be equal to one-third (four months) of 20% of the operating profits earned for the year ended October 31, 2023. The amount payable for any year will be paid based on the audited financial statements. OFPK's amortization rate for capital assets is 5%. Even though forecasts are provided only to 2027, Lena expects that 2028 to 2032 results will be at least equal to those of 2027.

As part of the terms of the loan, Lena would like me to join OFPK's board of directors with voting rights to provide input on operating strategy, since I have a good knowledge of the pet food retail sector. Currently, only Lena, her father, and Piotr are directors.

Lena also expects that JRP will purchase a minimum of $500,000 of the OFPK food to sell in JRP's retail outlets. In 2022, JRP started to carry the OFPK food and has found it to be successful. To date in 2023, JRP has already purchased $400,000 of OFPK food for sale at its retail stores, so reaching the $500,000 minimum should not be a problem. Lena has also suggested that if JRP agrees to this arrangement, she would provide a discount to JRP on its purchases.

Lena has hired two scientists for her research and development who have degrees in food chemistry and nutrition. Lena believes that ongoing product development is key for success to have leading-edge and innovative products that will adapt as pet owner preferences change. The continuous introduction of new products will keep sales stable over time. The R&D department is also responsible for continuing quality control spot checks that are completed and reported daily.

APPENDIX VII (continued)
LOAN TO OSLER FARMS PET KITCHEN LTD.
Prepared by Julia Hammond

The most recent audited financial statements of OFPK are provided. With input from me, Lena has prepared forecast assumptions for the years 2023 to 2027, beyond which OFPK's operating profits are expected to grow at 2%. Property, plant, and equipment additions and working capital increases forecast for 2027 will continue in years beyond 2027.

Assumptions	**2023**	**2024**	**2025**	**2026**	**2027**
Sales in stores — annual percentage growth	20%	20%	15%	10%	5%
Online sales — annual percentage growth	30%	30%	20%	15%	5%
Subscription sales — annual percentage growth	35%	35%	30%	15%	5%
Cost of goods sold — percentage of total sales	54%	52%	51%	51%	51%
Advertising and marketing — percentage of total sales	10%	10%	9%	8%	8%
Shipping — percentage of total sales	3%	3%	3%	3%	3%
Research and product development — annual growth rate	8%	6%	3%	3%	3%
General and administrative — annual growth rates	6%	5%	3%	2%	2%
Additions to property, plant, and equipment ($'000s)	6,000	3,200	3,200	2,500	3,000
Increase in working capital ($'000s)	50	50	50	40	20

APPENDIX VII (continued)
LOAN TO OSLER FARMS PET KITCHEN LTD.
Prepared by Julia Hammond

Osler Farms Pet Kitchen Ltd.
Income statement
For the year ended October 31, 2022
(under ASPE)
(in C$'000s)

	AUDITED **$**
Revenues	
Sales in stores	3,260
Online sales	3,570
Subscription sales	1,960
	8,790
Cost of goods sold	4,480
Gross profit	4,310
Expenses	
Advertising and marketing	820
Amortization	983
Shipping	230
Research and product development	450
General and administrative costs	620
	3,103
Operating profit	1,207
Interest on long-term debt	979
Interest on line of credit	
Earnings before income taxes	228
Income taxes	62
Net earnings	166
Opening retained earnings	1,696
Closing retained earnings	1,862

APPENDIX VII (continued)
LOAN TO OSLER FARMS PET KITCHEN LTD.
Prepared by Julia Hammond

Osler Farms Pet Kitchen Ltd.
Balance sheet
For the year ended October 31, 2022
(under ASPE)
(in C$'000s)

	AUDITED **$**
Assets	
Current assets	
Cash	52
Accounts receivable	350
Inventory	196
Prepaid expenses	95
Total current assets	693
Property, plant, and equipment	24,650
Total assets	25,343
Liabilities	
Current liabilities	
Line of credit	-
Accounts payable	381
Accrued liabilities	100
Current portion of long-term debt	640
Total current liabilities	1,121
Note payable — JRP	
Long-term debt	15,360
Total liabilities	16,481
Shareholders' equity	
Common shares	3,000
Preferred shares	4,000
Retained earnings	1,862
Total shareholders' equity	8,862
Total liabilities and shareholders' equity	25,343

APPENDIX VIII
ADD PET SERVICES TO STORES
Prepared by Elaine Davidson

The proposal is to renovate the stores to use the space more efficiently and change the mix of product and services. The food displays will be moved, the pet supplies eliminated, and three treatment rooms added. This will allow the stores to offer additional new pet services in the stores. One-half of the retail floor space will be converted into three treatment rooms. There will be one room for pet chiropractic therapy, one for pet massages, and one for pet nutritional counselling. Pet supplies will no longer be offered for sale, but pet grooming, training, and pet food will continue to be offered. Currently, JRP holds 50 days of inventory for pet supplies.

The breakdown of the contributions per product or service type and the total fixed costs has been calculated and is provided below.

The proposal is to convert the first 10 stores in 2023. During July 2023, the construction will start in each of these stores and is expected to be finished in one month. In August, the new services will be offered. Grooming and training and pet food sales will continue during the construction period. The next 10 stores will be converted in January of 2024.

Contractors, rather than employees, will be used to provide the pet services. This will allow JRP to pay for only the services provided and save on benefits and ongoing training that these professionals must have annually to keep up to date and maintain their certification. The contractors will be responsible for cleaning after every pet and for ensuring that any required regulations have been followed.

The selling price per session for each of the services is as follows: pet chiropractic therapy: $115; pet massage: $65; and pet nutritional counselling: $80. There will be six sessions in each treatment room per day and a maximum of 280 booking days per year.

For the stores that are converted in 2023, the treatment rooms will be available 80 days during 2023, 240 days in 2024, and then at full capacity in 2025 and onwards. For the stores opened in 2024, there will be 180 days available in 2024 and then full capacity for 2025 and onwards.

APPENDIX VIII (continued)
ADD PET SERVICES TO STORES
Prepared by Elaine Davidson

The following represent the costs per session for each service:

	Pet chiropractic therapy	Pet massage	Pet nutrition counselling
Therapist/nutritionist (as a % of selling price — as industry practice)	$50.00	$30.00	$40.00
Supplies	$ 0.40	$ 1.50	$ 0.75
Cleaning supplies	$ 0.50	$ 0.50	$ 0.50

The capital costs per store for building the treatment rooms and to purchase the equipment are $150,000. These assets will have a useful life of 15 years.

It is believed that JRP's current fixed costs will not be affected by the decision.

	Pet food (variable costs) $	Pet supplies (variable costs) $	Pet grooming and training (variable costs) $	Fixed costs $	Total $	Total as per F/S $
Sales	19,725	12,850	5,925		38,500	38,500
Cost of goods sold	8,475	8,990	3,555	-	21,020	21,020
Amortization				1,599	1,599	1,599
Direct store costs	80	50	40	420	590	590
Marketing and advertising	385	250	160	1,295	2,090	2,090
Wages and salaries	2,000	1,000		4,258	7,258	7,258
Rent and occupancy costs			100	3,740	3,840	3,840
General and administrative			20	1,170	1,190	1,190
	10,940	10,290	3,875	12,482	37,587	37,587
Contribution	$8,785	$2,560	$2,050	–$12,482	$913	
Contribution margin	45%	20%	35%			
Average contribution per stores	$439,250	$128,000	$102,500			

APPENDIX C

THE COMMON FINAL EXAMINATION
DAY 1 JRP VERSION 1 BOOKLET – SEPTEMBER 12, 2023

Common Final Examination
September 12, 2023 – Day 1
(Booklet #1 – JRP Version 1)

<u>Case</u> **(Suggested time: 240 minutes)**

It is July 23, 2025, and you, CPA, are still working at Quinton and Sparks Consulting LLP (QSC). J.R. Pets Inc. (JRP) has again engaged QSC to assist with its strategic analysis and planning.

In 2023, JRP moved forward with the option to invest in the deluxe dog camp, Bonheur des Animaux au Lac Agathe Camp (BALA). JRP did not move forward with any of the other potential strategic investments that were considered during 2023. Also, the store manager who exploited JRP's required training reimbursement program was let go, and the manufacturers who were impacted by this fraud were made aware of what had occurred. Since then, JRP has increased the level of documentation required before managers and employees are reimbursed for the training programs they report as being complete.

After a prolonged period of growth, both the Canadian and global economies began to decline in early 2025. Given a historically high inflation rate, central banks around the world have begun to increase interest rates. As a result, the disposable income of Canadians has declined and so has consumer spending.

Since 2023, JRP has not changed its mission, vision, or core values.

At the last board meeting, JRP's directors agreed that, for any future investments, preference will be given to those that provide JRP with the highest annualized return on investment (ROI). However, all four JRP board members remain risk averse, and would therefore like to ensure as much as possible the reliability of the return earned from any future strategic investments JRP makes.

For any new strategic investments, JRP currently has $500,000 of investment capital available. Also, a reputable bank has offered to provide JRP with a term loan of up to $7 million. The potential loan's term is 10 years and it has an interest rate of prime plus 3%. Principal and interest payments are payable monthly until the loan matures.

JRP's board has asked you, CPA, to review the information that has been provided and draft a report in which you analyze and make a recommendation for each proposal presented. The board would also like you to comment on JRP's overall strategic direction and on how each proposal could influence that direction. For this engagement, please ignore any tax implications within your analysis and recommendations.

INDEX OF APPENDICES

APPENDIX I
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Julia: Thank you, CPA, for coming today.

As you all know, JRP is at a critical point in its development. Prior to this year, the growth of our pet shops was already stagnant, and now with the recent economic downturn, our profit margins have declined as many of our customers have moved away from purchasing high-priced specialty products and services.

Elaine: That's right, Julia. The downturn in the economy has made everyone more cautious with their spending—especially on products they deem nonessential. The next several years could be tough for business. We simply don't know how long this downturn will last, so we need to be cautious when making investments. The lower the risk, the better.

Steve: It will be a challenge, but I am confident that with the right decisions, we can help protect JRP and ensure that the company thrives well into the future. On that note, our investment in BALA has been a huge success so far. Last year, during its first full year of operations, BALA surpassed our initial performance expectation.

Gord and Irene's contributions have been instrumental to BALA's early success. I don't think we could have managed without them. Gord recently asked whether he could speak with the board. He's here today to discuss a new investment opportunity with us.

Richard: Excellent. Send him in.

Gord joins the meeting.

Julia: Welcome, Gord. First off, thanks for your hard work at BALA. You've both made us proud!

Gord: You're very welcome, Julia. Honestly, it is both Irene's and my pleasure. We love operating BALA. It's been incredible so far.

I want to propose to the board that JRP open two additional premium dog camps. After the early success of BALA, it makes sense to expand now and get a foothold in two new markets before our competitors do. I have identified properties that would be ideal for BALA-type dog camps: one in Ontario and the other in Nova Scotia.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Elaine: As the “humanization of pets” trend continues, demand for BALA’s premium boarding service has been driven by pet parents who want the best for their pets. As well, the number of pet owners continues to increase, and this could help drive demand even higher.

Richard: I like the idea of opening new dog camps in Ontario and Nova Scotia, since BALA’s location in Quebec has helped build JRP’s brand in that province.

Julia: There is no doubt that BALA has been a success, but this expansion might be premature. BALA has only been open for a little over a year and a half. Plus, the expansion will force Gord to divide his attention between all three dog camps.

Gord, have the luxury grooming and spa treatment rooms opened at BALA yet?

Gord: Unfortunately, no. But we’re getting closer. Irene and I felt it was important to solidify the camp’s base operations before we turned our attention to the grooming and treatment rooms.

Elaine: Gord, I also understand that Irene has made quite a name for herself as a pet trainer. We have received rave reviews from BALA’s customers about Irene’s training tips.

Gord: Irene has a gift for dog training. In fact, we should consider selling training courses since there is clearly a demand for it. I have left some information with Elaine about this additional opportunity.

Finally, I wanted to mention that the expansion of JRP’s dog camps is very important to me and Irene. Although we both love operating BALA, we want a greater challenge. If JRP’s board chooses not to expand the dog camp operation, I have found another company that Irene and I will go and work with. This company has also offered to buy BALA from JRP for $6 million.

Julia: Okay, Gord. Thanks for the information. We will speak with you soon.

Gord leaves the meeting.

Steve: The success of BALA or any future expansion depends on Gord and Irene. And so, we will either need to sell it or agree to expand into Nova Scotia and Ontario.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Elaine: I agree, Steve. I also think it's important to point out that BALA's occupancy rate is lower this year than it was at the same time last year. Plus, we have begun to receive comments from customers that our fees are too high, and because of that, they may not return to use BALA's services again.

Julia: Okay, next up, a veterinarian friend of mine suggested that we install a pet pharmacy at each of our current JRP stores. In addition to offering pet medicine products, each pharmacy would be staffed by a certified pet pharmacist who would not only prescribe pharmaceutical products but also provide advice, and even perform basic medical checkups and preventive care procedures. Offering this type of service directly in our stores will give JRP a competitive advantage.

Steve: It's an interesting idea, but I worry about the risks. What if a pet gets sick because one of our pharmacists provided poor care or an improper medicine? Not only could this hurt our reputation, but we could potentially be held liable.

Richard: While that is a real concern, we could get insurance to protect ourselves, so I think it's a great idea. Pet owners care deeply about the health of their pets, so this type of service should provide a steady source of revenue—the same thing can't be said for luxury services or products. People become more cautious with spending when their disposable income drops.

Steve: By offering this service, JRP would enter a new regulatory environment. This would complicate our operations and potentially increase costs. Plus, more regulations are bound to be issued.

Julia: You're not wrong, Steve. If we move forward with this proposal, we will need to be careful. However, with our experience, I'm confident that our pharmacies will be able to provide goods and services of high quality that meet all industry standards. JRP has never had a problem with meeting regulations in the past. My veterinarian friend even mentioned that she could help us find and hire our first few certified pet pharmacists.

Richard: Okay, moving on, I want to discuss another investment opportunity. Pet Fresh is an up-and-coming German company that offers a subscription-based service so that pet owners can have premium pet product boxes delivered directly to their homes. Pet Fresh is seeking a partnership with JRP that would allow them to expand their operations into Canada.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Elaine: If these pet product boxes contain food products, I'm concerned. It will be a challenge to ensure that the food stays fresh during shipping. We would need to ensure that Pet Fresh adheres to JRP's strict quality requirements.

Richard: The boxes do contain food products. In fact, customers can choose from a range of food, treats, and toy options. Each box is different from the last, so the pet gets a variety of healthy food, and because this is an exclusive offering, each box contains only the best, most luxurious products. Despite the additional expense, Pet Fresh's German customers love the convenience of not having to make regular visits to the pet store.

One of the best parts of the proposed partnership is that Pet Fresh will take care of all the operational considerations. Once we make the upfront investment, Pet Fresh will be responsible for product sourcing and the assembly and shipment of the boxes. Another great aspect of Pet Fresh's proposal is their willingness to use JRP's name as the brand on the boxes. This could help JRP gain national exposure!

Julia: We could propose this new service directly to JRP's past and present customers using our customer database.

Richard: Exactly, and we could also advertise this service in our existing JRP stores.

Julia: This partnership is worth looking into.

Elaine: Maybe, but it wouldn't take many incidents before customers lost trust in the safety of our products.

Steve: Our next opportunity came available when PetPharma Co. (PPC), an American pet pharmaceutical developer and manufacturer, contacted me about JRP becoming PPC's exclusive Canadian distributor. PPC has never sold their products in Canada before.

Elaine: Once again, I am concerned about regulation because American standards are different from Canadian standards, and because the pet industry faces increasing regulation. What do we know about PPC?

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Steve: The company is two years old. My preliminary research shows they have become a trusted brand that provides high-quality pet medicines and other pharmaceutical products. Once PPC's products get approved for sale in Canada, I expect our revenue stream from the distribution agreement to steadily grow over time.

Becoming PPC's distributor would allow JRP to build relationships with veterinarians across Canada. Plus, because we would be the exclusive distributor, anyone who wanted PPC products in Canada would need to buy through JRP.

Richard: JRP has never been a distributor before. We know nothing about the logistics involved.

Steve: From what I can tell, it's a straightforward process. First, we would need to lease a warehouse to receive PPC's products. From there, we would ship orders directly to veterinarians and pet pharmacies anywhere in Canada. The staffing requirement would be minimal. Plus, as PPC's distributor, JRP could purchase its products at a discount. We would save about 5% over the best price that we have found for similar pet medicine and pharmaceutical supplies.

Elaine: It sounds interesting, but we should be cautious. I wonder what amount of PPC product sales JRP would need before we begin to earn a return on the initial investment?

Steve: I will provide my preliminary research figures.

Elaine: Finally, as Gord mentioned earlier, we have an opportunity to offer an advanced training program, Training+. Irene is an expert dog trainer, and JRP has yet to offer a dog training service.

Julia: Moving forward with this project would probably help us retain Gord and Irene, but what if they decide to leave JRP?

Richard: I am sure we could find another dog trainer to lead the program.

Julia: Maybe. But isn't there a lot of competition for dog training programs?

Elaine: Indeed, there is. But the Training+ course is different because it goes far beyond the basics and offers an experience for both dogs and dog owners. We could charge a much higher price for this program compared to regular training courses.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Steve: What kind of experience does Training+ offer?

Elaine: For the duration of the program, both the dogs and dog owners will stay onsite for an exclusive experience that will provide the dog owners with the chance to make friends. And at the end of the program, Irene is confident that each dog will be competent enough to enter obedience competitions. Pet parents will love that!

Steve: I'm not sure, Elaine. There are endless training videos for free online. And what about the dog bite incident that happened at BALA when Irene was demonstrating a training technique? That pet owner left a very bad online review of BALA.

Elaine: That's true, but neither JRP nor Irene can be held responsible for one misbehaved dog. Irene is a master, and she's willing to provide the education necessary to all the other instructors the Training+ program would need. After the first few cohorts of dogs, JRP would have a highly competent group of dog trainers. That could be a huge asset for us going forward.

Julia: Good point, Elaine. Thank you all for your contributions today. CPA, the board looks forward to your report. Meeting adjourned.

APPENDIX II
INDUSTRY UPDATE

A number of prominent Canadian economists have recently projected that the sharp increase in inflation is expected to continue for at least the next two years before hitting a plateau in 2028. It could take several years after that before Canada's inflation rate comes down to the historical average. Given this projection, borrowing costs are also expected to continue to increase for the foreseeable future.

The trend of pet parents to treat their pets as family members has continued to intensify. Because of this, many pet owners consider their pet's health important, so if their pets get sick, owners are likely to pay for any necessary medicines or veterinarian visits.

This trend has led to an increase in demand for pet medicines, which has triggered many new pharmaceutical suppliers to enter the market. In the past year, there have been several incidents of pets becoming ill after taking medicine from two of these new market entrants that did not follow the strict requirements set by Health Canada. As a result of these incidents, the regulations around animal medicines have become stricter and penalties for violations have increased.

APPENDIX III
EXPANSION OF PREMIUM DOG CAMPS

Prepared by Elaine

So far, BALA has had two main types of customers: dog owners who want a unique vacation that includes their dogs, and dog owners who use BALA as a boarding service while they go on business trips or personal vacations.

The original BALA location cost $4.8 million, but the combined cost to purchase both new locations is $6.8 million since the new locations are not quite as big as BALA. Each new location will be able to accommodate only 40 dogs per day, whereas BALA can accommodate 60.

I have put together the following analysis, based on the actual results from BALA's first year of operations (2024):

Description	Current BALA Location (ACTUAL)	Two New Potential Locations (Combined PROJECTION)		
Occupancy rate	60%	50%	70%	90%
Daily rate per dog	$ 105	$ 105	$ 105	$ 105
Max number of dogs per day	60	80	80	80
Days open per year	365	365	365	365
Total pet camp fees	$ 1,379,700	$ 1,533,000	$ 2,146,200	$ 2,759,400
Merchandise sales	500,000	605,500	800,000	1,000,000
Grooming	65,000	77,500	112,000	143,000
Pet owner stays	438,000	497,000	631,300	832,200
Total revenue	2,382,700	2,713,000	3,689,500	4,734,600
Total costs	1,366,540	1,965,100	2,096,000	2,116,920
Net income	$ 1,016,160	$ 747,900	$ 1,593,500	$ 2,617,680

APPENDIX IV
PET PHARMACIES

Prepared by Julia

Because JRP will need to renovate its existing stores to make room for the pet pharmacies, the company will have less shelf space to offer pet supply products. In addition, each renovation will take around three weeks to complete. However, the stores will be able to remain open during this time.

Given the increase in demand for pet medicines and pharmaceutical products, the demand for certified pet pharmacists, a profession newly created in 2024, has recently increased. As this is a new profession, some veterinarian clinics and pet pharmacies are having a difficult time finding and hiring these professionals.

Based on my research and the discussions I've had with my veterinarian friends, I compiled the following estimates for the likely revenue and costs associated with offering pet pharmacies within JRP's stores:

- A pet pharmacy could be opened at each of JRP's existing 20 store locations. The renovation cost is estimated to be $225,000 per location.
- Each pet pharmacy will employ one certified pet pharmacist at an annual salary of $120,000.
- Annual administration costs for each pet pharmacy are expected to be $77,500.
- Each pet pharmacy is expected to generate $460,000 in revenue each year.
- The cost to obtain the pet pharmaceutical supplies will provide a 50% gross margin.

APPENDIX V
PET FRESH PARTNERSHIP

Prepared by Richard

To enter the partnership agreement, JRP will be required to pay Pet Fresh $650,000. Pet Fresh will use these proceeds to lease and renovate a facility in Canada where the boxes will be assembled and shipped from. In return, JRP will earn 50% of all profit generated from the new operation.

Pet Fresh has been in operation in Germany for two years. Based on their experience, Pet Fresh's management expects the new partnership with JRP will earn $1.3 million in revenue annually. The cost of goods sold is estimated to be 40% of revenue. Shipping expenses are currently estimated to be $300,000 per year, and administration costs will be $200,000 per year.

However, there is some uncertainty surrounding both the cost of goods sold and the projected shipping expenses. The main component of cost of goods sold is the price of food, and the main component of shipping expenses is the price of fuel. In recent years, the prices of these items have tended to increase from year to year, given factors such as inflation. Therefore, the cost estimates given above for these items could increase. Depending on whether the potential price hikes are moderate or high, we can expect the costs of these items to increase in the following ways next year:

Item	Moderate	High
Cost of goods sold	8%	15%
Shipping expenses	20%	40%

APPENDIX VI
PET PHARMACEUTICAL DISTRIBUTION AGREEMENT

Prepared by Steve

The agreement with PPC will allow JRP to distribute pet pharmaceuticals to veterinarians and pet pharmacies across Canada. A recently introduced regulation requires businesses to have a licence, and a certified pet pharmacist on staff to prescribe pet pharmaceutical products.

All PPC products have been approved for sale within the United States.

The proposed agreement requires JRP to pay an initial $500,000 to acquire the exclusive distribution rights to PPC's products within Canada. Based on our market research, we expect to sell around $16.5 million of PPC's products annually. JRP will earn 6% on all of PPC's Canadian product sales throughout the duration of the agreement. The agreement has a five-year term and an option for JRP to extend the contract for an additional five years. JRP's annual fixed costs associated with becoming PPC's Canadian distributor are estimated to equal $540,000, and JRP expects the project's variable costs to be 2% of PPC's annual Canadian product sales.

APPENDIX VII
TRAINING+ COURSE

Prepared by Elaine

Before JRP can begin to offer the Training+ courses, Irene needs to provide training to the other people who will become trainers for the program. The only other startup cost of this potential venture will be advertising to attract pet owners to the program. JRP estimates these upfront costs will total $100,000.

Irene plans to offer two variations of the Training+ course: one that will last one week and another that will last two weeks. However, there will be no overlap between course types as only one course can effectively operate at any given time.

Course Type	One Week	Two Week
Number of courses offered per year	16	10
Price charged to dog owners	$2,000	$3,500
Number of dogs per course	12	12

The variable costs associated with operating the Training+ course are expected to equal 30% of revenue. The total wage expense for the trainers who will operate the program will equal $6,200 for each week the course is offered. If BALA is no longer available as the location for the Training+ courses, JRP will need to rent the facilities required to operate the training program—a suitable location has been found that will cost the company $5,600 per week. Lastly, there will be an annual fixed cost of $130,000 related to the administration of the program.

APPENDIX D

DAY 1 (JRP VERSION 1) – SEPTEMBER 12, 2023
MARKING GUIDE AND SAMPLE CANDIDATE RESPONSE

MARKING GUIDE
J.R. PETS INC. (JRP)
VERSION 1

Summative Assessment #1 – Situational Analysis

For Summative Assessment #1, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate used a reasonable situational analysis when analyzing the major issues facing JRP.

Unsure – The candidate attempted to use a reasonable situational analysis when analyzing the major issues facing JRP.

No – The candidate clearly did not use a reasonable situational analysis when analyzing the major issues facing JRP.

Based on the 2022 Competency Map:

Technical Competency
2.3.2 Evaluates the entity's internal and external environment and its impact on strategy development

Enabling Competencies
1.4.1 Performs work carefully, thoroughly and competently in accordance with relevant technical and professional standards
2.1.1 Applies knowledge of the organization's competitive environment and strategic direction when performing assigned work
2.1.3 Identifies the strategic impact of internal decisions and external influences on project plans and initiatives
6.1.1 Identifies and articulates issues within areas of work responsibility
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses

The candidate is expected to complete an appropriate situational analysis. The candidate should draw upon their situational analysis when analyzing the major issues facing JRP (whether to expand or sell BALA, offer pet pharmacies, enter the partnership agreement and offer subscription boxes, become a distributor of PPC products in Canada, and offer the Training+ program). The candidate should also identify the major risks and constraints that will affect their analysis of these major issues.

Current Situation

Since Quinton and Sparks Consulting LLP's (QSC) last engagement with JRP, JRP expanded its business into providing the deluxe dog camp, Bonheur des Animaux au Lac Agathe Camp (BALA), as originally proposed in 2023. All the other strategic proposals that were proposed during 2023 were turned down.

Also, the store manager who exploited JRP's required training reimbursement program was let go, and the company's product manufacturers who were impacted by this fraud were made aware of what occurred. Since then, JRP has increased the level of documentation required before managers and employees are reimbursed for the training programs that they report as being complete.

In addition, after a prolonged period of growth, both the global and Canadian economy began to decline in early 2025—this year. This has resulted in historically high interest rates, a trend that is expected to continue for at least the next two years. As a result, borrowing costs have increased and are expected to rise over the foreseeable future. Another consequence of the economic downturn has been a decline in both disposable income and consumer spending within Canada.

Vision/Mission

JRP's vision, mission, and core values, approved by the Board of Directors in 2019, are as follows:

Vision statement: *"To create a better everyday life for pet owners and their pets by providing the highest quality of healthy, innovative, fun, and safe products for cats and dogs in stores that are staffed by pet-loving and knowledgeable people."*

Mission statement: *"We are committed to meeting all the needs of pet owners and pets by providing superior products that will keep pets healthy and happy throughout their lives. We want to give our customers the most captivating shopping experience that will ensure life-long relationships and loyalty. We want to be relevant not only to pets and pet parents, but also to our communities by supporting local animal-related charities."*

Core values (*no changes from Capstone 1*):

JRP has six core values:
1. Have a positive impact on our pet parents and create lasting relationships.
2. Sell only the highest-quality products that will foster healthy and happy pets.
3. Provide pet parents with knowledgeable advice on products, to help them make the right decision for their pets.

5. Value, develop, and reward contributions, service, and skills of our employees.
6. Act always with the highest ethical standards, integrity, and honesty.
7. Care about, be involved in, and give back to our local communities.

These have not changed since 2019 and are still currently in effect.

Objectives

At the last board meeting, JRP's directors agreed that, for any future investments, preference will be given to those that provide JRP with the highest annualized return on investment (ROI). However, all four JRP board members remain risk averse and would therefore like to ensure, as much as possible, the reliability of the return earned from any future strategic investments made. Moreover, given the economic downturn, JRP's board has become even more cautious, and would like to give preference to the investments that have the lowest amount of risk.

Therefore, throughout this analysis, each project's potential annualized ROI will be highlighted; however, our recommendations will also be based on the potential risks associated with each investment. Although a project may have the potential to achieve a high annualized ROI, it may still be inappropriate if the associated risks of the project are deemed too high.

Available Cash Flow /Financing

For any new strategic investments, JRP currently has $500,000 of investment capital available.

Also, a reputable bank has offered to provide JRP with a term loan of up to $7 million. The potential loan's term is 10 years and has an interest rate of prime plus 3%. Principal and interest payments are paid monthly until the loan matures. However, it should be noted that, given the economic downturn, interest rates are expected to rise, in which case, this term loan could become increasingly expensive for JRP. Given the board's preference for reducing risk, this loan should only be accepted if the board has a high degree of confidence that the cash flow provided by any new investments would be sufficient for making the loan payments.

In addition, JRP has an offer to sell BALA for $6 million. This would also provide JRP with additional capital, which could be used to make strategic investments.

Candidates are NOT expected to recap KSFs or do a SWOT in detail. However, they must draw upon these in their analysis of the strategic options presented.

Key Success Factors (KSFs)

KSFs in the pet store industry include the following:

- Attractive and eye-catching product presentation and displays, to promote buying.
- Experienced and knowledgeable sales staff, to provide advice to customers on their specific requests.
- Locations in high-traffic and visible areas, to maximize traffic into the stores.
- A wide range of products to offer at various price levels and quality in order to attract all types of customers.
- Consistent and good-quality products, to ensure ongoing customer satisfaction and continued customer loyalty.
- Strong relationships with manufacturers and distributors, to allow pet stores to purchase high-quality goods at a lower cost.
- Investment in good technology and information systems, allowing the store to control and record merchandising, distribution, sales, and stock markdowns.

For the pet boarding industry, KSFs are different, including the following:

- Providing good customer satisfaction, since word-of-mouth recommendations are most important in customer selection.
- Having effective quality-control standards that are maintained at all times.
- Having a well-trained and flexible work force.
- Being in close proximity to a large population.

SWOT Analysis

Strengths:

- The investment in BALA has so far been successful. This has provided JRP with a second revenue-generating business unit apart from its 20 pet stores. The investment in BALA has also helped build JRP’s brand in Quebec, which could help increase the performance of JRP’s store within the province.
- Gord and his wife Irene have become major assets for JRP since the opening of BALA. JRP could utilize their talents to expand the company’s dog-camp operations into Ontario and Nova Scotia.
- JRP has seemingly been able to rectify the issue concerning the store manager who took advantage of JRP’s required training courses. Since this situation was resolved, JRP has increased the level of documentation required before managers and employees are reimbursed for the training programs that they report as being complete. This will hopefully ensure that this kind of issue does not arise again in the future.

Weaknesses:

- The company only has $500,000 available for strategic investment. This is a very small amount, considering that the cost to invest in some of the strategic options greatly exceeds that amount. Therefore, if JRP would like to make a major investment, more investment capital will need to be obtained.
- Even prior to the current economic downturn, the growth of JRP's pet stores was stagnant. This has led to decreased profit margins—a trend that is likely to get worse, given the downturn. Many of JRP's customers have begun to move away from purchasing higher-priced speciality products.
  Although BALA has so far been successful, it appears that the success of the project depends on Gord and Irene's participation. Therefore, if these two individuals leave JRP for whatever reason, the viability of continuing to operate BALA may be jeopardized.

Opportunities:

- Although consumer spending is down, pet owners are still willing to pay for their pet's health, as many pet owners deem this to be essential. Therefore, if JRP can expand into areas that focus on pet health, the company may be able to shelter itself from the effects of the economic downturn.
- JRP has the opportunity to build on the success of BALA by opening two new premium dog camps, one in Nova Scotia and one in Ontario. The timing for this might be right, given that, according to Gord, there is no competition in these areas.
- The "humanization of pets" trend continues, which has led many pet owners to treat their pets like people. In the past, this has resulted in pet owners spending more money on their pets. However, it is possible that this trend will be somewhat or completely negated by the current economic circumstance—pet owners may not have enough disposable income to spend on luxuries for their pets.
- The number of pet owners continues to increase. This means that the market for JRP's products has also increased.
- JRP could sell BALA for $6 million to a group associated with Gord. However, if JRP moves forward with this, the company will lose the opportunity to expand BALA into Nova Scotia and/or Ontario.
- JRP has the opportunity to open a pet pharmacy at each of its current locations. Along with pet medicine products, the pharmacies would be staffed by professionals, who could provide pets with basic medical checkups and preventative care procedures.
- JRP has the opportunity to partner with Pet Fresh and therefore offer a subscription-based service, whereby premium pet boxes are delivered to the door of pet owners. This also offers JRP the opportunity to increase the company's brand awareness throughout Canada, as the boxes would be branded with JRP's name and logo.

- JRP has the opportunity to become PetPharma Co.'s (PPC) exclusive Canadian distributor of PPC's pet pharmaceutical products. JRP would simply need to receive PPC's products from the US and then ship orders to pet pharmacies within Canada.
- JRP could utilize Irene and her strength as a dog trainer to offer a Training+ course. This could either be offered at JRP's current BALA location or at another location. However, if JRP decides to sell BALA, this option does not appear to make strategic sense, given that Irene would no longer be associated with JRP.

Threats:

- Both the global and the Canadian economy began to decline in early 2025. Given a historically high inflation rate, central banks around the world could begin to increase interest rates in order to reduce inflation. Therefore, the cost of borrowing has been projected to increase.
- A high inflation rate means that JRP's products will likely become more expensive to the company's customers. This may mean that customers will begin to look for lower-priced alternatives. This could hurt JRP's profitability.
- As a result of the economic downturn, the disposable income of Canadians (as well as consumer spending) has declined. This could hurt JRP's profitability, as customers begin to reduce the amount they spend on their pets. In addition, this reduction in disposable income will limit JRP's ability to increase its prices alongside the increase in its costs, given that the company could lose customers if JRP were to increase its prices.
- The increase in demand for pet medicines has caused many new companies to enter the market. This has led to an increase in incidents involving pets getting sick from medicines that did not meet the quality standards. As a result, the amount of regulation around pet medicines, and penalties for violations, has increased.
- There also appears to be a general increase in the amount of competition within the pet industry. For example, relative to the opportunity to offer the Training+ course, there are already many other competitor products available for dog-training programs, some of which are offered for free. JRP's success depends on the company's ability to remain competitive within this environment.

Conclusion

Even prior to the economic downturn, JRP's profitability and growth had slowed. With the current downturn, these metrics are likely to decline even further. JRP has a number of opportunities to invest in new projects; however, the viability of each project will likely be affected by the economic downturn. Therefore, caution will need to be used before any investment is made. This is especially important now, because if JRP invests in a project that ultimately fails, the company's future could be in jeopardy. With this caution in mind, each investment opportunity will now be analyzed.

Summative Assessment #2 – Analyzes the Major Issues

For Summative Assessment #2, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate sufficiently completed a reasonable assessment of the major issues facing JRP.

Unsure – The candidate attempted to complete a reasonable assessment of the major issues facing JRP.

No – The candidate clearly did not complete a reasonable assessment of the major issues facing JRP.

Technical Competency
2.3.3 Evaluates strategic alternatives

Enabling Competencies
1.1.3 Exhibits ethical behavior by complying with laws and regulations, organizational policies, societal norms and personal ideals
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.1.3 Demonstrates skepticism, objectivity, due care and persistence when identifying issues
6.2.3 Questions the relevance and tests the quality of information and assumptions in own analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives

This summative assessment is based on Assessment Opportunities #2 to #6.

Assessment Opportunity #2 (Strategic Alternative #1: Expand dog-camp operations or sell BALA?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should expand its premium dog-camp operations by opening two locations. The candidate is also expected to assess whether the company should sell BALA rather than move forward with the expansion plans.

Quantitative analysis: The candidate should calculate the projected annualized ROI of the potential expansion and comment on how realistic achieving those projections is. The candidate should also discuss the $6 million offer to sell BALA.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of expanding JRP's premium dog camps in Ontario and Nova Scotia (with particular attention paid to the option's associated risks). The candidate should also incorporate a discussion of the sales offer within their analysis.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

JRP's first premium dog camp, BALA, has been a success so far. To date, the camp's performance has exceeded the initial expectations of the board. Much of this success appears to be owed to the efforts of Gord and his wife Irene. Gord would now like to expand the dog-camp operations in both Nova Scotia and Ontario, given that, according to Gord, the time is right because there is not yet any competition within these two provinces.

Gord and Irene are passionate about BALA but seek a greater challenge. Therefore, if JRP decides not to move forward with the expansion, Gord and Irene will leave JRP to go and work with another company. In addition, Gord mentioned that this company is willing to purchase BALA from JRP for $6 million.

Given the importance of Gord and Irene to the entire dog-camp operation, it appears that JRP has only two options: move forward with the expansion plans; or sell BALA to the group that Gord has brought forward.

Quantitative Analysis

Option to expand:

	Projected Occupancy 50%	Projected Occupancy 70%	Projected Occupancy 90%
Cost for two locations	$6,800,000	$6,800,000	$6,800,000
Income	$747,900	$1,593,500	$2,617,680
Annualized ROI	11%	23%	38%

Based on the projections provided by Steve, the annualized ROI that JRP can expect from the expansion of JRP's dog camps ranges between 11% and 38%. The annualized ROI that JRP achieves on this investment is clearly tied to the occupancy rate that the dog camps can achieve.

In 2024, BALA had an actual occupancy rate of 60%—this exceeded the board's initial expectations. Moreover, Elaine mentioned during the board meeting that BALA's occupancy rate had declined in 2025 relative to 2024, and that some customers had commented on BALA's fees being too high. Therefore, it would be a reasonable expectation that BALA's performance during 2025 will be lower than 2024. This could be as a result of the economic downturn.

Nevertheless, with these numbers in mind, JRP's board would be wise to be conservative with its projections for the expansion. At 50% occupancy, the expansion would still earn JRP an 11% annualized ROI. However, is it possible that the occupancy rate will be even lower than this during the first year, or first few years, of the camp's operations? Given the economic downturn, this is not an unreasonable assumption.

Therefore, JRP's board should assume that this expansion would earn JRP an annualized ROI of 11% within the first year or two, and that it could actually be lower than that, given the current economic conditions.

Option to sell

If JRP were to sell BALA, the $6 million would provide the company with much needed investment funds and/or a cash cushion, to weather the economic downturn that is supposed to last for at least the next two years (according to prominent Canadian economists). Given that JRP's current investment capital is limited to $500,000, this $6 million could be used to invest in other growth areas of the industry without the need to obtain further bank financing (which could become increasingly expensive, given the expected increase in borrowing costs). As well, the sale of BALA would allow JRP to forgo the risk that BALA's performance will decline as a result of the economic downturn.

Further, based on the company's initial investment in BALA, JRP would earn a return of 25% on that investment. Therefore, the sale of BALA offers JRP an opportunity to earn a significant return on its original investment, as well as increase the company's available investment capital:

Sale price	$6,000,000
Original cost	$4,800,000
Capital gain	$1,200,000
Capital gain as a percentage	25%

However, with the information provided, it is impossible to assess the reasonability of this offer; therefore, before JRP accepts it, the board should ensure that this amount represents the fair value of BALA.

Qualitative Analysis

Advantages:

- The demand for premium dog camps has exceeded the initial expectations of JRP's board. This investment has proven to be a bright spot for the company, whereas the growth and profitability of the company's pet stores has stagnated. It may be possible to build on BALA's initial success by expanding into two new locations.
- Gord and his wife Irene appear to offer JRP an advantage within their dog-camp operations. According to Steve, much of the success is owed to these two, and they now want to expand into two more facilities. By doing so, JRP would likely be able to retain these two talented individuals.
- According to Gord, there is no competition for premium dog camps in either potential expansion location—Nova Scotia and Ontario. Therefore, the success of this expansion is more likely, given that JRP will not have to compete for customers. This may not always be the case in the future, as other companies could open similar facilities at any time.
- Gord has already identified two ideal locations for expansion. JRP would be able to open similar dog camps in locations that are similar to the one that has made BALA so successful.
- Both the "humanization of pets" trend and the number of pet owners has increased. This increases the number of potential customers for JRP's premium dog camps.
- By opening these new locations, JRP would help grow the company's brand in both Nova Scotia and Ontario.
- BALA has received great reviews about Irene's training tips, and JRP could build on this by offering training courses at the dog camps. This would help increase the camps' profitability.

<u>Disadvantages:</u>

- Given the importance of Gord and Irene to the success of BALA, they would be needed to oversee both expansions. As Julia pointed out, this would mean that Gord and Irene would need to divide their attention between three properties rather than just one. This could result in the deterioration of BALA's performance, and could make it more challenging to mimic BALA's success at the two new locations.
- BALA has yet to open either the luxury grooming or spa treatment rooms. Gord mentioned that he plans to get to this soon, but this is another indication that opening two more locations may be premature, as these facilities at BALA have not even been completed yet.
- If JRP does not expand BALA, it appears that Gord and Irene will leave JRP. That would mean losing two apparently highly-talented people.
- The occupancy rate appears to be falling. If that trend continues, the viability of the expansion will be more questionable.
- Customers have begun to complain about BALA's fees being too high. This is a risk area, especially given the current economic conditions. If more of BALA's customers begin to complain, this could hurt BALA's performance.
- In order to expand as Gord proposed, JRP would need to use the available term loan, which has an interest rate of prime plus 3%. This is a major risk, especially given the expectation that interest rates are expected to rise. If the performance of JRP's dog camps were to decline, the company would still need to repay the loan, which could become increasingly expensive as interest rates go up.
- As JRP's dog camps, including BALA, are premium services, the demand may decrease as consumer spending falls. With the economic downturn, we have already begun to see these trends, and they are likely to remain for at least the next few years. Although the service is currently popular, dog owners may not have enough money to continue to use these dog camps. This is further evidenced by the fact that many of BALA's current customers are those who want a unique vacation, or who use BALA as a boarding service while they go on overseas vacations. Both of these sectors are likely to decline, given the reduction in Canadians' disposable income.

Conclusion

Although dog owners appear to want to use JRP's premium dog camps, the state of the economy should be enough to caution the company about how demand may fall. As the economic downturn continues, Canadians will have less disposable income to devote toward luxuries such as vacations and premium services, so the performance of BALA and any other dog camps could decline. Moreover, another big risk associated with the expansion is the fact that JRP would need to use the term loan that is currently being offered. If interest rates continue to climb, and it appears as though they will, the cost of the loan will only grow. That result, coupled with a declining occupancy rate, could make operating dog camps less attractive.

On the other hand, the offer to sell appears attractive, given that JRP would earn a capital gain on its original investment in BALA and would receive a large sum of money, which could be used for other strategic investments and provide the company with cash to help weather the current downturn.

Assessment Opportunity #3 (Strategic Alternative #2: Offer pet pharmacies within JRP's pet stores?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should open a pet pharmacy at each current JRP pet store.

Quantitative analysis: The candidate should calculate the potential annualized ROI offered by this strategic investment. The candidate should also discuss the upfront investment required, and how JRP could approach financing.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of renovating each JRP pet store to include a pet pharmacy (with particular attention paid to the option's associated risks).

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

JRP has been presented with a strategic investment that would involve renovating JRP's current pet stores to include a pet pharmacy within each store. Based on the initial proposal, each pet pharmacy would offer pet medicine products and be staffed with a certified pet pharmacist, who could give advice to pet owners and also perform basic medical checkups and preventative care procedures on pets.

Each store renovation is projected to cost $225,000, which would mean that the overall cost of renovating all 20 stores would equal $4.5 million. Given JRP's limited investment capital, if the company decides to move forward with this project, additional financing will need to be secured.

Quantitative Analysis

Based on the information provided by Julia, the following projections were formulated. An annualized ROI projection has been completed for two different scenarios. The first is the project's estimated performance if JRP does not move forward with the PPC proposal, and therefore does not get access to PPC's discount rate on pet medicines. The second scenario includes PPC's discount; therefore, for this projection to be realized, JRP would need to move forward with both this proposal and the proposal to become PPC's pet pharmaceutical distributor in Canada.

Projected income from project:

	Year 1	
Current Projection	**W/O Discount**	**With Discount**
COGS	50%	50%
PPC's discount rate	0%	5%
Final COGS	50%	45%
Revenue	$ 460,000	$ 460,000
COGS	230,000	207,000
Gross margin	230,000	253,000
Pharmacist	120,000	120,000
Administration	77,500	77,500
Total fixed costs	197,500	197,500
Income per store	$32,500	$55,500
Total income	$ 650,000	$1,110,000
Annualized ROI	14%	25%

Without the discount, JRP will earn a 14% annualized ROI if the expected revenues and costs of the project align with the pharmacies' actual performance once they are opened. With the discount, the expected annualized ROI would increase significantly, to 25%. However, it is also important to conduct more due diligence over how the PPC discount would affect JRP's cost of goods sold. In the projection above, it is assumed that JRP would be able to fully stock the pet pharmacies with product from PPC, but this might not be possible, given PPC's available product line.

Relative to the option to expand BALA, this option appears to be quite attractive. Given the analysis and discussion provided above for the BALA expansion (and the corresponding expected annualized ROI of 11%), this option appears to provide either a similar return at worst, or a much greater return at best (if JRP uses PPC's products within the company's proposed pet pharmacies).

To renovate all of JRP's stores in order to include the pet pharmacies, the cost would equal $4.5 million. At present, JRP does not have this amount for strategic investment. Therefore, if JRP were going to move forward with this option, the company would need to raise additional financing. This could be done in two ways: accept the term loan that has been offered; or sell BALA for $6 million (the proceeds of which could be used to fund the renovations).

Qualitative Analysis

<u>Advantages:</u>

- Offering a pet pharmacy at each of JRP's pet stores could provide the company with a competitive advantage, given that pet owners would be able to access these services directly within JRP's stores without the need to go to a veterinarian. The certified pet pharmacists that JRP intends to staff at each JRP pet pharmacy could provide advice as well as basic medical checkups and preventative care procedures. This could help JRP differentiate itself from other pet stores and therefore gain more customers.
- The quantitative strength of this proposal has synergies with the opportunity that JRP has to become the Canadian distributor of PPC's products. JRP could purchase PPC's products for sale within JRP's pet pharmacies at a lower rate than what JRP would otherwise pay for pet medicines (a savings of about 5%).
- The health of their pets is considered essential for pet owners. If a pet gets sick, the pet owner is very likely to pay for the cost of treatment. Therefore, this opportunity could provide JRP with shelter from the current economic downturn, because pet medicines are not considered luxury spending. The income from this proposal could be more steady when compared to some of the other strategic options that JRP currently has available (such as the subscription boxes that appear to be a more expensive/luxurious offering).
- The number of pet owners has increased, so there will be a greater number of pets that require this kind of service.
- Julia's veterinarian friend would be willing to help JRP find and hire the company's first few certified pet pharmacists. This could help ease the company's transition into this new business line.
- There has been an increased demand for pet medicines. JRP could take advantage of this growth by offering pet pharmacies within each one of JRP's current pet stores.

Disadvantages:

- By including the new service of providing basic medical checkups and preventative care procedures, JRP would be exposed to a new risk. A pet could become sick as a result of poor care, or if the pharmacist gives the pet an improper medicine. This could lead to liability risks:
  - This risk could be mitigated at least somewhat by having a rigorous hiring process for the company's future certified pet pharmacists that are brought on to staff the pharmacies.
  - This risk could also be mitigated by ensuring that JRP has an adequate amount of liability insurance.
- The risk discussed above could also have harmful implications on the company's public reputation if a pet becomes sick because of JRP. If that incident becomes publicized, JRP's reputation could be significantly diminished.
- JRP does not currently have the investment capital required to move forward with this opportunity. Therefore, either BALA would need to be sold or JRP would need to use the term loan (which has inherent risks, given the economic downturn).
- JRP would enter a new regulatory environment if the company built the pet pharmacies. Moreover, industry regulation has recently grown, and penalties for violations have increased. There could be increased costs related to compliance and, if JRP were to ever violate these regulations, the company's costs and reputation could be significantly affected.
- There is an opportunity cost associated with the renovations because JRP will have less shelf space to dedicate to offering pet supply products. This could frustrate some customers if their desired products are no longer offered. In addition, JRP may earn less from pet supply sales because of the reduction in shelf space—this potential drop in sales has not been factored into the projection provided above. Therefore, before JRP moves forward with this option, a more fulsome projection should be completed that includes this associated drop in sales.
- Each renovation will take three weeks. Although the stores will remain open during this time, this disruption could frustrate both JRP staff and customers.
- It may be a challenge to find the required number of certified pet pharmacists to staff the pharmacies, given the increase in demand for these professionals:
  - This risk is somewhat mitigated by Julia's friend, who could apparently help JRP with this staffing requirement. JRP should do more research into the availability of these professionals, and whether it is realistic to assume that the company could attract the requisite number.

Conclusion

Overall, this option appears to be an attractive one. There is clearly a growing market for pet pharmacies, which is unlikely to decrease in the future, given the increasing number of pets and because pet owners consider their pet's health to be essential. However, there are a number of associated risks that JRP should explore and attempt to mitigate before the company decides to move forward with this option. In addition, more due diligence is required (as mentioned above).

However, if JRP can confidently mitigate the risks, as discussed above, and if the further due diligence procedures do not uncover any more unacceptable risks, this option would align well with the company's objective to earn a high annualized ROI without taking on an undue amount of risk.

Assessment Opportunity #4 (Strategic Alternative #3: Partnership with Pet Fresh)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should enter into a partnership with Pet Fresh, and thereby offer a subscription service where pet owners will have premium pet boxes delivered to their homes.

Quantitative analysis: The candidate should calculate the potential annualized ROI offered by this strategic investment at the various levels of inflation that have been estimated. The candidate should also discuss the upfront investment required, and how JRP could approach financing.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of offering a subscription service for premium pet boxes (with particular attention paid to the option's associated risks).

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

An up-and-coming German company, Pet Fresh, wants to partner with JRP to expand its business and begin to offer its premium pet box subscription service within Canada. The associated upfront investment for JRP would be $650,000.

Quantitative Analysis

Based on the information provided by Richard, the following projections were formulated. An annualized ROI projection has been completed under three different scenarios: one at the current-estimate cost level; one with moderate price hikes; and one with high price hikes.

Projected income from project:

	Current	**Moderate Increase**	**High Increase**
Revenue	1,300,000	1,300,000	1,300,000
COGS	520,000	561,600	598,000
Gross margin	780,000	738,400	702,000
Shipping	300,000	360,000	420,000
Administration	200,000	200,000	200,000
Total indirect costs	500,000	560,000	620,000
Income	280,000	178,400	82,000
JRP's share of income (50%)	140,000	89,200	41,000
Annualized ROI	22%	14%	6%

As can be seen, the projected annualized ROI would be greatly impacted according to whether the potential price hikes are moderate or high, based on the estimates provided. If costs were to stay as is, the company would earn a projected annualized ROI of 22%, if prices go up at a moderate level, the company would earn 14%, and at the highest level of price increases, the project's annualized ROI would fall to just 6%. Therefore, from a quantitative perspective, the potential price hikes (which are affected by the rate of inflation) represent a large risk to this project's strength. Moreover, given that a number of prominent Canadian economists have suggested that the sharp increase in inflation will continue for at least the next two years, JRP can be confident that this project's return will be at least somewhat affected by inflation. In fact, if the price hikes were to continue into Year 2, the return that JRP would earn from this investment could actually turn negative.

At a moderate level of price increases, the projected return of this project is 14%, which is equal to the low estimate for the potential pet pharmacy project. However, given the risk of higher price hikes, it is important to note that this investment's return would fall to just 6%, a figure well below that of both the BALA expansion and the pet pharmacy project. Therefore, from a quantitative perspective, this option does not appear as strong when compared to the other two projects that have been analyzed.

However, this project's upfront investment is only $650,000, which is substantially lower than the other two projects. Therefore, to proceed with this investment, JRP would not need as much additional financing.

Qualitative Analysis

Advantages:

- This service would offer JRP's customers a convenient way to access the company's products. JRP customers would no longer need to travel to a JRP store in order to purchase JRP's products:
  - However, this could also be a disadvantage, given that this project could result in reduced traffic at JRP's pet stores, which could result in lower overall sales.
- Customers can choose from a range of options that include varying levels of food, treats, and other products; however, all items included are of the highest quality. This is in keeping with JRP's current commitment to provide only the best quality of products.
- Pet Fresh will be responsible for all operational aspects of the project. This will allow JRP's current management to remain focused on JRP's pet stores:
  - However, this could become a disadvantage if Pet Fresh proves to be ineffective at handling the operational aspects of the project. Given that Pet Fresh appears to be a relatively new company and has never operated in Canada, this risk could be difficult to mitigate.
- Pet Fresh is willing to use JRP's name as the brand on each box that is delivered. This would allow JRP to gain national exposure, as the subscription boxes would be available for shipment throughout Canada:
  - However, this could become a disadvantage if something goes wrong with the subscription boxes (e.g., if one or more pets become ill from eating spoiled food that was delivered in the pet boxes). This represents a major risk to JRP's brand name, and a risk that may be impossible to mitigate if Pet Fresh is allowed to fully control the operational aspects of the project.
- JRP could help propel the initial growth of the subscription box service by utilizing the company's customer database as well as by advertising the new service within existing JRP pet stores. This may lead to an increase in the project's initial performance.
- Each pet box that is delivered to a customer is different from the last. This provides surprise and variety to subscribers and pets. It also helps ensure that pets get a wide variety of healthy food. All of this is in keeping with JRP's mission, vision, and core values.

Disadvantages:

- As Elaine pointed out, it could be a challenge to ensure the freshness of food when it is being shipped to each subscriber. As JRP typically focuses on fresh food, this could present an even greater challenge. JRP would need to ensure as best as possible that all food delivered remained fresh during transit.
- This proposal appears to center on expensive products and convenience. Although these two factors are not inherently detrimental, they could become that way, given the current economy, where consumers are spending less and less on luxury/non-essential products. Although pet owners may want to subscribe to these boxes, they may decide not to, given a drop in their discretionary spending. A major risk to this project is the current economic conditions, which is something that JRP can do nothing to mitigate.
- The increasing industry regulation could impact this project, as Elaine pointed out. As regulations are increasing, it is possible that the costs and logistical challenges of this project are increased. This risk is made worse by the fact that Pet Fresh would be responsible for the project's operations, whereas it would be JRP's name on the box.
- Pet Fresh has only been in business for two years. Although the company has apparently been successful so far, it will be difficult for JRP to ascertain whether Pet Fresh has the experience and skill required to smoothly operate this new project.
- Pet Fresh is responsible for sourcing the products that will be included in each box that is delivered. This is a risk, as it is unclear at this time what kind, and quality, of products they will be. Although Pet Fresh claims they will be filled with luxury products, JRP should still confirm this by reviewing a product listing that Pet Fresh has included in their boxes in the past.
- There are many uncertainties involved with this project that JRP cannot control. For example, if inflation continues, the costs of the project will increase significantly. This would drop the return of this investment to a relatively small amount. But in addition, if inflation continues, the number of customers for the subscription boxes is likely to also fall, as people move more and more away from these kinds of expensive services.

Conclusion

This proposal appears to be too risky to warrant an investment at this time. Many of the advantages of the project come with an associated disadvantage that JRP will not be able to effectively mitigate. So much of the success of the proposal will be determined by the rate of inflation as well as by Pet Fresh's ability to perform well. Inflation is expected to continue, and it is impossible to say how well Pet Fresh will perform. If Pet Fresh does not perform well and the subscription box service is problematic in any way (such as food becoming spoiled during delivery), JRP's reputation could be significantly diminished across the entire country. This is a significant risk.

Given this, JRP would be taking on a significant amount of risk for an annualized ROI that is likely to be below that of the other investment options currently available to the company. For these reasons, this investment is not recommended at this time.

Assessment Opportunity #5 (Strategic Alternative #4: Become Canadian distributor of pet pharmaceutical products?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should enter into an agreement to become PetPharma Co.'s Canadian distributor.

Quantitative analysis: The candidate should calculate the potential annualized ROI offered by this strategic investment. The candidate should also discuss the upfront investment required, how JRP could approach financing, and the amount of sales of PPC product that JRP would need, to break even on the initial $500,000 investment.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of becoming the pet pharmaceutical distributor for PPC (with particular attention paid to the option's associated risks).

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

An American pet pharmaceutical developer and manufacturer, PetPharma Co. (PPC), wants JRP to become the Canadian distributor of its products. PPC has never sold its products in Canada before; however, it has become a trusted brand within its current market.

The upfront cost associated with entering the agreement equals $500,000—an amount equal to what JRP currently has available for strategic investment.

Quantitative Analysis

Based on the information provided by Steve, the following income and return projection was generated:

Upfront cost to enter agreement	$500,000
Expected sales (annual)	$16,500,000
JRP's commission	6%
JRP's revenue	990,000
Variable costs to JRP	330,000
Fixed costs to JRP	540,000
JRP's income	$120,000
Annualized ROI	24%

Using the revenue projection provided by Steve, the annualized ROI of this investment is an attractive 24%. However, given that the annualized ROI is greatly impacted by the actual sales made within each year, JRP should conduct further research to best ascertain what level of sales is reasonable. At roughly $13.5 million in annual sales, this project would start to earn an annualized ROI. However, if Steve's research is deemed reasonable and appropriate (expected sales of $16 million), this investment would be a quantitatively strong one.

In addition, by entering the distribution agreement with PPC, JRP will be able to purchase pet medicine and pharmaceutical supplies at a cheaper price compared to the price that JRP has otherwise found for these supplies. This aspect of the PPC agreement offers JRP a significant advantage when applied to the strategic option of offering pet pharmacies within JRP's existing pet stores. The projected annualized ROI for the pet pharmacies, as detailed in the quantitative analysis for that option, would increase from 14% to 25% if JRP was able to supply the pet pharmacies with PPC's products. Therefore, the annualized ROI that JRP would earn from this distribution agreement would increase if JRP moved forward with both of these strategic options.

Qualitative Analysis

<u>Advantages:</u>

- Pet medicine is considered essential spending by many pet owners, so the expected sales of PPC's products will not be as affected by the current economic downturn relative to products that are considered luxury items.

- PPC has gained the reputation of being a trusted brand that provides high-grade pet medicines and other pharmaceutical products. This speaks to the quality of PPC’s products.
- Becoming the Canadian distributor of PPC’s products would give JRP the opportunity to grow its relationship with veterinarians all across Canada. This could be a huge asset for JRP going forward and could result in more opportunities, such as becoming the distributor of other pet-related products. This option offers JRP the opportunity to enter a whole new segment of the industry:
  - Although this does provide JRP with a host of new potential opportunities, it also means that JRP may have a more difficult time navigating this new business line, given that the company and its directors have no experience in this area. It could take time and some difficulty before JRP can effectively operate this new aspect of its business.
- PPC’s products appear to be high-quality and in demand. As JRP would become the exclusive distributor of PPC’s products in Canada, anyone who wanted to buy these products in Canada would have to do so through JRP.
- If JRP were to move forward with this agreement, JRP would gain access to PPC’s products, and could sell those products within JRP stores. This would save JRP about 5% on its pharmaceutical product purchases. This advantage would become even more impactful if JRP decided to move forward with opening pet pharmacies within the existing JRP stores.
- The demand for pet medicines is increasing. Moving forward with this investment would help JRP take advantage of this trend.
- The number of pets and pet owners is increasing. This means that the market for pet medicines is also likely to increase even more. Moving forward with this investment would help JRP take advantage of this trend.

<u>Disadvantages:</u>

- PPC has never sold its products within Canada before, and as Elaine mentioned, there is a difference between the American and Canadian regulatory standards. Therefore, although PPC’s products have been approved for sale in America, they would still need to become licensed in Canada. This could increase costs:
  - However, it is possible for JRP to research these differences and to quantify any additional costs that would be associated with getting PPC licensed in Canada. This research should be done prior to making an investment decision, to ensure that JRP does not take on any unreasonable risks.
- Becoming a distributor of pet pharmaceutical products would be more challenging, given an increasing level of regulation within Canada in relation to pet medicines. As regulations could continue to increase, this may add an additional level of challenge to this project in the future:

  - However, as Julia mentioned, JRP has never had any issues with meeting regulatory standards in the past, so as long as JRP does the requisite amount of due diligence on PPC and its products prior to moving forward with the investment, JRP should be able to mitigate this risk to a reasonable level.
- The viability and longevity of this potential investment largely depends on PPC's ability to continue to provide high-quality products. If, for whatever reason, PPC lost its reputation, JRP would be negatively affected. There is no way at this time for JRP to control for this risk.
- Many new pet pharmaceutical suppliers have entered the market, given the increased demand for pet medicines. That means that JRP would be competing with more and more companies for the business of veterinarians across Canada.

Conclusion

JRP needs to conduct further due diligence on PPC and its products. If JRP can gain confidence in the quality of PPC's products, this option appears to be very attractive. The market for PPC's products—pet medicines—is increasing, and should continue to increase as the number of pets continues to go up. In addition, there is a significant synergy between this option and the option to offer pet pharmacies within JRP stores. In addition, the projected annualized ROI of this option is an attractive 24%.

Therefore, if JRP's board can gain comfort over the quality of PPC's products and the ability to get those products licensed in Canada, this project aligns very well with the company's objective to earn a healthy return without taking on too much risk.

Assessment Opportunity #6 (Strategic Alternative #5: Offer Training+ program?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should begin to offer the pet-training program called Training+.

Quantitative analysis: The candidate should calculate the potential annualized ROI offered by this strategic investment. The candidate should also discuss the upfront investment required and how JRP could approach financing.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of offering the Training+ program (with particular attention paid to the option's associated risks).

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

To date, JRP's customers have given high praise to Irene's training tips that she has provided to guests at JRP's premium dog camp, BALA. Alongside his proposal to expand

JRP's premium dog camps into two new locations, Gord also mentioned that JRP should begin to offer an advanced pet-training course. The upfront cost associated with offering the Training+ program is only $100,000.

Quantitative Analysis

It appears that there are two possible scenarios for the Training+ program: one where JRP would offer the Training+ at BALA; and one where the course would take place at a location that JRP would need to rent (in the event that JRP decided to sell BALA). Therefore, two different projections are provided below, which detail the revenue and expenses of this possible investment.

Based on the information provided by Elaine, the following income and return projections were formulated:

Course Type	**1-Week**	**2-Week**
Number of courses offered per year	16	10
Price charged to pet owners	$2,000	$3,500
Number of dogs per course	12	12

Projected Annual Income	**With BALA**	**W/O BALA**
1-week course	$384,000	$384,000
2-week course	420,000	420,000
Total revenue	804,000	804,000
Wages	223,200	223,200
Variable costs	241,200	241,200
Administration	130,000	130,000
Rent	0	201,600
Total expenses	$594,400	$796,000
Net income	$209,600	$8,000
Annualized ROI	210%	8%

The investment's quantitative strength—the return that it would generate—is highly dependent on whether JRP could use BALA as the location where the Training+ course would take place. If BALA is used, the expected annualized ROI is 210%, whereas if a location must be rented, the annualized ROI would fall to 8%. However, if BALA was used as the location for the training program, it is likely that the number of dogs and dog owners that would have otherwise stayed at BALA would decrease (because a portion of the property's available space would need to be allocated to the training program). This opportunity cost has not been included in the above projection. Before JRP makes a final decision, this amount should be determined and included in the projection.

Nevertheless, without the use of BALA, this option is less quantitatively attractive when compared to most of JRP's other current investment options.

However, one main advantage of this option is its low upfront cost of only $100,000. This amount is required to train the instructors that would help Irene operate the course, and to run the initial marketing campaign for the training program. JRP currently has this amount available; therefore, the company would not need to access further investment capital to move forward with this proposal.

Qualitative Analysis

Advantages:

- JRP has received rave reviews from BALA customers in regards to Irene's pet-training tips. This should help give JRP some confidence in Irene's ability to operate an effective training course that pet owners will enjoy. Irene appears to be an asset that JRP could use to help build the company's suite of products.
- According to Gord, there is a strong demand for pet-training courses. By moving forward with this option, JRP could take advantage of this demand.
- Offering the Training+ program at BALA would expand JRP's current offering of services at its premium dog camp. It is therefore possible that BALA's performance would increase, as more customers are drawn to the dog camp in order to access the Training+ program. There is a strong synergy between this option and BALA.
- At BALA, Gord and Irene have been a major advantage for JRP, and JRP would like to retain them if possible. By agreeing to offer the Training+ program, JRP may be better able to do so.
- The Training+ course goes beyond a typical training program and offers both pets and pet owners a unique experience. This could attract more business.
- Irene is confident that, by the end of the program, each dog that participates will be competent enough to enter obedience competitions. This outcome is likely to attract the attention of other pet owners who want the same for their own pets. This is likely to be made even more powerful by the "humanization of pets" trend that continues within the industry.
- Irene is willing to provide training to all the other instructors that would be needed to help operate the Training+ program. This would result in JRP having a group of highly competent dog trainers that could be used to expand the program in the future (potentially at JRP's future premium dog camps, if the company decides to move forward with that option).

Disadvantages:

- The high demand for pet-training courses appears to have attracted many competitors into the space, so if JRP proceeds with this option, the company would be forced to compete with these other training courses. This could result in a lower-than-expected performance.
- As with BALA, the viability of this option appears to be tied directly to Irene. If she were to leave the company, it is questionable whether JRP would still be able to effectively operate the program. This risk is made worse by Gord and Irene's ambition to expand BALA into two more premium dog camps. If JRP decides not to move forward with that option, would Irene's talents still be available to JRP? This is not certain at this point:
  - It was suggested that another expert dog trainer could be hired to lead the program; however, it is uncertain whether JRP would be able to find someone with the same apparent talent as Irene.
- If Irene is retained and JRP is able to move forward with this strategic alternative with Irene as the head trainer, it is questionable whether she will have enough time to devote to this project while also keeping up with her current responsibilities at BALA. Prior to moving forward, JRP should assess whether Irene has enough capacity to function adequately as the head trainer for these courses in addition to her current role at the dog camp.
- There is competition from other training courses, as there is an abundance of online training videos that pet owners can access for free, whereas the Training+ program is expensive. It may be harder to compete with these free resources than JRP currently anticipates.
- The ongoing downturn in the economy has resulted in lower disposable incomes for Canadians, which has led to a decrease in consumer spending. Given that the Training+ program is expensive (and some may deem non-essential), it is possible that the interest in the program will be lower than anticipated. Although pet owners may want to enter their pets in the program, they may not have the cash required. This is a major risk that JRP cannot control for.
- Steve noted that an incident occurred at BALA when Irene was demonstrating a dog-training technique—apparently, the dog bit someone. The pet's owner went on to leave a very bad online review. Although it is unclear who was to blame for this incident, and whether similar incidents are likely to occur in the future, the incident highlights a risk of this venture. JRP should investigate what happened at BALA, and whether it would be possible to reduce the risk of similar incidents occurring in the future.

Conclusion

The success and viability of this option appear highly correlated with JRP's decision regarding whether to expand the company's premium dog camps. If JRP decides to forgo this opportunity and sell BALA, moving forward with the Training+ program does not make sense. In that case, this investment's annualized ROI would plummet and JRP would not likely have Irene's expertise to help operate the program. Without her, it does not appear that this option is viable.

On the other hand, if JRP decides to expand the premium dog-camp operations, this option appears to be a good move. Its annualized ROI would be very high, and it would mean offering a new, in-demand service within the premium dog camps. However, even with BALA, this venture is not without risk, especially given the economic downturn, which could result in pet owners looking for lower-cost alternatives for pet training.

Summative Assessment #3 – Conclude and Advise

For Summative Assessment #3, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate provided reasonable conclusions for each major issue.

Unsure – The candidate attempted to provide reasonable conclusions for each major issue.

No – The candidate clearly did not provide reasonable conclusions for each major issue.

Enabling Competencies
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.2 Articulates limitations to recommendations
6.3.3 Applies decision criteria to choose among viable alternatives
6.3.4 Ensures that decision criteria do not conflict with professional ethics and values

The candidate is expected to provide a logical conclusion that is consistent with their analysis and integrated with an overall recommendation of whether JRP should expand the company's premium dog camps or sell BALA, offer pet pharmacies, enter the partnership agreement with Pet Fresh and offer subscription boxes, become a distributor of PPC products in Canada, and offer the Training+ program. The candidate should also discuss how JRP could approach financing the recommended approach.

The candidate should draw logical conclusions and make a recommendation on the strategic direction JRP should take. The candidate's analysis should integrate the analysis for all five major strategic opportunities into a coherent overall strategy. The recommendations should be strategic in nature and display good professional judgment and logic, recognizing the interconnected influence of each option. Suggesting that further information is required is acceptable where justified and consistent with the analysis.

Recommendations on Specific Alternatives

JRP's board would like to maximize the company's return on any investments made, while also ensuring that the company does not take on an undue amount of risk with those same investments. With those objectives in mind, the following recommendation for each investment proposal is provided.

Whether to expand JRP's premium dog camps or sell BALA

To afford the expansion, given the company's limited available financing options, JRP would need to use the term loan that has been offered to the company. This represents a significant risk because the loan has a variable rate of interest (prime plus 3%). As experts have predicted, central banks around the world are expected to continue to raise interest rates in an attempt to lower the rate of inflation. This trend could continue for at least the next several years, so the payments that JRP would need to make on the loan would likely continue to increase, and therefore, the profitability of the venture would decrease.

The next major risk associated with the expansion also centers around the economic downturn, but in a different way. Given the historically high inflation rate, both the disposable income and the consumer spending of Canadians have fallen—this is especially true for products and services that consumers have deemed non-essential. BALA, and any further expansions of JRP's dog camps, could very likely experience a drop in revenue, given the drop in consumer spending. As the economic decline is expected to continue in the future, this trend could get worse and worse over the short- to medium-term. In fact, BALA's occupancy rate has already fallen relative to last year, and the guests of the dog camp have begun to complain about BALA's high fees. The decline in BALA's performance may have already begun.

For this reason, it is recommended to forgo the expansion. And because of this, the offer to sell BALA for $6 million should be seriously considered. Gord and Irene appear to be a very important component of BALA's success and, if JRP declines the expansion, these two appear to be set to leave the company. Given the declining performance of BALA and the fact that JRP could use the funds provided by the sale for strategic investment elsewhere, it is recommended that JRP sell BALA for $6 million to the group that Gord has brought to the board's attention.

Whether to open pet pharmacies within JRP's existing pet stores

The annualized ROI that this investment is projected to earn will likely be greater than the dog-camp expansion, and it appears that it will present less risk to JRP. This outcome depends on a number of factors; however, the risks associated with opening the pet pharmacies could be mitigated (at least in part) through the efforts of JRP. The risks associated with the dog-camp expansion, on the other hand, are completely outside of JRP's control because they depend on the macroeconomic environment.

The annualized ROI from this project is expected to equal between 14% and 25%, depending on whether JRP is able to use PPC's pharmaceutical products, which offer JRP a 5% discount on the company's cost of goods sold. Moreover, this return is far more likely to be stable relative to the options such as the BALA expansion and Pet Fresh partnership because pet owners deem the health of their pets as essential, so even with the economic downturn, these services are likely to be used.

There are two main risks associated with this opportunity: increasing regulations; and the potential for pets to become sick if JRP's certified pet pharmacists provide improper care. To mitigate the first risk, JRP would need to research and adhere to all the applicable regulations. Next, JRP can mitigate the risk of pets getting sick by ensuring that it only hires experienced staff with a clean track record of quality care.

Given the attractive return and the reasonable level of risk, it is recommended to move forward with this opportunity. To finance this project, JRP should use the funds that are generated through BALA's sale. That way, the company can avoid the risks associated with the term loan, as described above. Moreover, JRP's board may want to consider only renovating half of JRP's stores to make way for pet pharmacies. This could be advantageous for two reasons: first, it would allow JRP to forgo paying the entire $4.5 million right away, and second, it would allow JRP to test whether its expectations are accurate before every store is renovated. By choosing this strategy, JRP may be able to reduce the risk of this investment even further.

Whether to partner with Pet Fresh and offer premium pet subscription boxes

The risks associated with this option appear too high to warrant this investment. Pet Fresh is a relatively new company that wishes to use JRP's name to offer its service within Canada. If JRP agreed to this, the company would be putting its name and reputation in jeopardy, because if something went wrong (such as a pet becoming sick from eating spoiled food), JRP would be blamed. That being said, Pet Fresh appears to offer a service that aligns well with JRP's business and core values, so JRP may want to keep in contact with Pet Fresh, and/or investigate Pet Fresh's practices, to see if Pet Fresh's operations are effective enough to mitigate the risk discussed above.

In addition, the projected annualized ROI of this opportunity is highly dependent on the potential cost increases. At a high increase, this venture is only projected to earn a 6% annualized ROI. With a moderate increase, the annualized ROI increases to 14%, and at the current cost estimate, the annualized ROI is 22%. However, these price hikes are at least partially tied to inflation, and as already stated, it appears that inflation is expected to continue to increase for at least the next couple of years. Therefore, JRP should be conservative in its estimate and assume that the annualized ROI from this investment would equal somewhere between 6% and 14%. Given this, JRP's money would be better spent elsewhere.

Whether to become PPC's Canadian distributor of pet pharmaceutical products

Before JRP moves forward with this opportunity, more due diligence procedures are required. First, JRP should ensure that PPC's products would be eligible for licensing within Canada. Second, JRP should research the operational requirements involved with becoming a distributor, to ensure that the company has the adequate knowledge and staff available to operate this function effectively. Next, JRP should have PPC's products tested by a third party, to ensure that they are as high-quality as they have been reported to be. Finally, there is a risk that the sales of PPC's products within Canada fall short of the estimate provided by Steve; therefore, before moving forward, JRP should try to get as much confidence in that figure as possible.

If, after those due diligence procedures, JRP is comfortable with PPC's products, and with JRP's ability to distribute them effectively, it is recommended that the company move forward with this option. The annualized ROI is high (24%), and should be protected from the current economic downturn, given that pet health and pet medicine are considered essential by pet owners. In addition, this opportunity could lead to further opportunities in the future, as JRP would become a product distributor, which is a whole new line of business for the company. Finally, there is a strong synergy between this opportunity and the option of the pet pharmacies within JRP stores. It makes good strategic sense to move forward with both of these options in conjunction, so that JRP can use PPC's products within JRP's pet pharmacies. This strategy would help ensure the success of both ventures.

Whether to offer Training+ programs

Given the recommendation to sell BALA, it would not make strategic sense to move forward with this option. Gord and Irene will likely leave JRP after BALA is sold, so there will be no one to operate the pet-training course. Also, there appears to be a lot of competition for pet-training courses, both from free online resources and from other physical training programs. Training+ is an expensive program that could become unattractive in the current economic environment. At this time, it is recommended to forgo this opportunity.

Overall Recommendation

First, JRP should sell BALA for $6 million. Then, JRP should begin the process of renovating its current pet stores to make room for the new pet pharmacies. However, as mentioned above, JRP may want to perform the renovations over time instead of all at once. In tandem with this, the company should begin a thorough evaluation of PPC's products and whether JRP will be able to effectively deliver those products to veterinarians all over Canada. If those due diligence procedures provide JRP with confidence over PPC's products, and the company is comfortable with the expected sales estimate, it is recommended to move forward with this option. The remaining options should be turned down at this time.

If JRP chooses to renovate all stores and signs the agreement with PPC, this will leave the company with $2.5 million in cash:

Current available investment capital	$500,000
AO2 BALA sale	+$6,000,000
AO3 Pet pharmacies	-$4,500,000
AO4 Subscription boxes	*Do not procced*
AO5 PPC Distribution agreement	-$500,000
AO6 Training+ course	*Do not proceed*
Total cash remaining	**$2,500,000**

Summative Assessment #4 – Communication

For Summative Assessment #4, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate adequately communicated their response.

No – The candidate clearly did not adequately communicate their response.

Insufficient communication in a candidate's response would generally include some of the following:

- The reader needs to re-read sections several times in order to gain an understanding.
- It is not clear what point the candidate is trying to make.
- The quantitative analysis does not make sense because of a lack of labelling or illogical ordering.
- There is an excessive amount of spelling and grammatical errors.
- Unprofessional language is used.

Summative Assessment #5 – Overall Assessment

For Summative Assessment #5, the candidate must be assessed in one of the following, based on their overall performance:

Clear Pass – Overall, the candidate provided an adequate response, clearly meeting the minimum standards for each of the summative assessments above.

Marginal Pass – Overall, the candidate provided an adequate response, with some errors or areas of omission, but the underlying key concepts were there.

Marginal Fail – Overall, the candidate provided an attempt at a response, one that contained several errors or where the analysis was incomplete.

Clear Fail – Overall, the candidate did not provide an adequate response; the response was deficient in multiple areas.

To be assessed a Pass, the candidate is expected to perform adequately in all the summative assessments and demonstrate that, overall, they addressed the issues of all of the shareholders.

Markers considered the following in making their overall assessment:

1. Did the candidate step back and see the bigger picture, and then address the broader issues identified?
2. Did the candidate prioritize the issues by discussing the major and minor issues in appropriate depth?
3. Did the candidate use both quantitative and qualitative information to support their discussions and conclusions?
4. Did the candidate use the appropriate tools to perform quantitative analysis?
5. Did the candidate use sufficient case facts (current case and Capstone 1 case) about the external and internal environment to support their discussions?
6. Did the candidate communicate their ideas clearly, integrating and synthesizing the information?

SAMPLE RESPONSE – JRP VERSION 1

Below is an actual passing candidate response.

Vision statement: to create a better everyday life for pet owners and their pets by providing the highest quality of healthy, innovative, fun, safe products for cats and dogs in stores that are staffed by pet-loving and knowledgeable people.

Mission statement: We are committed to meeting all the pet owners and pets by providing superior products that will keep pets healthy and happy throughout their lives. We want to give our customers the most captivating shopping experience that will ensure life long relationships and loyalty. We want to be relevant not only to pets and pet parents but also to our communities by supporting local animal related charities.

Values:

- have a positive impacts on our pet parents and create lasting relationships

- sell only the highest quality products that will foster healthy happy pets

- provide pet parents with knowledgeable advice on products to help them make the right decisions for their pets

- value, develop, rewards contributions, service and skills of our employees

- act always with the highest ethical standards, integrity and honesty

- care about, be involved, and give back to the local communities

Board Targets:

- Preference on the highest annualised rate of return while being risk adverse

- Lower the risk the better

Financing Available:

- 500k of investment capital is available

- 7m from reputable bank that has a 10 year term with prime plus 3% as rate

No covenants are connected to this new bank loan offer either

Controls in place for theft have also increased, minimising this risk

SWOT Analysis:

Strengths:

- BALA has surpassed the expectations for initial performance during it's full year of operations and has now given JRP a source of revenue and profits which is critical in a time of economic downturn. In addition to having new opportunities directly coming from within JRP

- Increased brand name recognition from bala investment in Quebec which increases potential sales with new customers in that region who were not part of the JRP family before

- Has 500k of funds available and 7m bank loan offer which allows for JRP to make new strategic investments and grow as a company with continued operations which is very difficult to obtain

- Sell goods and services that align with the current and future values of this industry which allow for more customers to align with values and willingness to purchase their products

Weaknesses:

- Profit margins have decreased resulting in lets cash from the same amount of sales being generated which puts JRP as risk of liquidity issues and potential going concern if they can no longer turn a profit with low margins

- Sales have decreased which puts pressure on JRP to change and be innovative as the market is still growing but sales are decreasing

- Irene and Gord run BALA and are a huge success because of them but are threating to leave and sell JRP portion of BALA if they do not get what they want and this can be a slippery slope to constantly demand terms which may not be favourable for JRP

Opportunities:

- Humanisation of pets trend has continued to grow which allows for JRP who cares about pet experiences and treats them just like their own has opportunity for sales growth and customers are willing to pay more and travel further for the brand they want and services offered

- Number of pet owners is increasing which is continuing the growth of the market which is a massive opportunity for JRP to capitalise on these new customers and take a larger market share

- Trend of pets being family members intensify this means customers are willing to pay more for the medicines and vet visits which is a potential new market being developed around Canada and seen in the USA already which again must be capitalised by JRP if the fit is correct and aligns with them which it seems to be

Threats:

- Global and Canada economies have declined since earlier this year of 2025 as a result the consumer spending has decreased which impacts JRP sales growth potential for now and the future and the economy is expected to stay like this for couple years

- Interest rates have increased causing disposable income in Canada to decrease and less people wiling to spend money on luxury or unnecessary items such as premium goods that JRP offers which hurts this sales potential

- Inflation has continued to grow which increases the costs of supplies and goods which eats into the operating margins and COGS hurting profits for JRP

Expansion of Premium Dog Camps:

Quantitative:

See Exhibit 1 for full calculations. Calculations have been performance based on appendix 3 prepared by Elaine which has assumption that these forecast would continue at worst this level and no growth would occur otherwise this would affect the net income and ROI numbers. In addition that the chance of each outcome be a 1/3 chance equal was used to provide and average payback period of 5.3 years and ROI of 24% but being that the BOD wants to be risk adverse this range is from 11-38% and could take up to 9.2 years to get paid back and operating income for the year will increase by almost 1.6m

Impact on objectives: The return on investment has the chance to be very high with the low end at 11% which is still very acceptable.

Conclusion: From a quantitative perspective the ROI is very strong and has a moderate payback period which shows a solid long-term investment to be made.

Qualitative:

Pros:

- The option would allow for the two new camps to build brand recognition in Ontario and Nova Scotia which would be a huge opportunity in nova Scotia as this region has not been targeting by JRP and would allow for new customers to be targeted with a strong brand name with potential increases in sales

- Aligns with values and vision of JRP which is a good sign for new proposal to be offered to a target market that has proven to love this service and clearly the demand for more is there

- Bala was a success and based of running from Gord and Irene so there is confidence that these two new options run by them should at the minimum meet expectations as BALA was able to exceed them

Cons:

- Risky option as the occupancy rate could range from 50-90% which is a large range ad goes against what the BOD wants with a new investment especially with an unstable market

- Customers are struggling financially to spend disposable income on luxury items which may cause the lower occupancy rate to be used and this hurts JRP potential sales and net income

- Heavy upfront costs which puts financial stress on this option to perform right away in a tough market and adds risk

- Gord and Irene threaten to leave if this option does not get picked which adds extra tension and bias with this option

Conclusion: This option should be pursued as the value of Gord and Irene are everything for BALA and it will not succeed without them. The 6m valuation is fair but should not be accepted as the opportunity for this option and to keep them with JRP is far more valuable. Aligns with vision and mission statement to provide unique experiences and this new training will build better and stronger relationships with customers will also building brand recognition in new places of Canada.

Training +:

Quantitative:

See Exhibit 2 for full calculations. The two courses could not overlap each other as Irene needed to be the one instruction and can effectively operate only one at a time. Looking at the option from being used with BALA vs without BALA there is a clear distinction with the rent fees eating away at the operating margins and providing a negative ROI when this option is used without BALA. With BALA this option increases net income for the first year by 79,600 and a high operating margin of 9.9%. These strong financial with a ROI of 79.6% which is extremely high results in a quantitative recommendation for this option if BALA is used. These projections are based on full occupancy being used every course all year long which is not always recommended as people will no show or not fill an entire class which can eat into the revenues and profits.

Qualitative:

Pros:

- There have been several customers requesting that this service be provided and specifically by Irene because of the quality of trainer she is and that customers demand this resulting in potential increased revenue and net income for JRP.

- Low upfront costs of 100k which minimises the risk that JRP needs to take in order to see the success of this option happen

- BALA is perfect location that is already owned and operated by Irene and Gord which customers have shown willing to drive to which lowers risk with increased revenue and profit margins

- With the huminization of dogs increasing there are more customers willing to pay to have their dogs trained by someone who knows how at a premium price as they consider the dogs part of their family which benefits JRP target market and potential sales

Cons:

- There is risk based on this option will only work if Gord and Irene are at BALA running things and have the area to use training + at BALA if not then renting this service will cause a loss each year for JRP and should be abandoned

- Gord and Irene will have to split time between running this new option and the current activities they have going on at JRP which can hurt the efficiency of BALA and brand reputation if clients start to feel left behind on other services.

Recommendations: I recommend you purse this option if Gord and Irene stay apart of JRP and will use BALA as the place to hold this service. The little risk and high return on investment aligns with your BOD targets and goals. In addition this option aligns with your values, mission and vision to continue offering the highest quality of services and experiences for customers that are clearly demanding this option.

Pet Pharmacies:

Quantitative:

Seen full calculations in Exhibit 3. With strong financial of a ROI of 14.4% and a payback period of 6.92 years this is definitely a long-term investment style that does product positive operating income of 32,500 or 7% which is well above the industry standards of

2% and above JRP current operating income levels which could be used to help drive this average up. Impacts the net income in a positive aspect within the first year and should remain steady with low risk as they can absorb potential regulation fees that may come about. Assumptions are that the supplies will not increase with the future inflation rates of the economies when projecting the payback period time line. In conclusion from a quantitative perspective this option makes sense for JRP and could be pursued.

Qualitative:

Pros:

- Gain a direct competitive advantage by installing the pet pharmacies directly in the stores which is massive for a struggling economy and high competition which can help JRP get a larger target market share during this time period

- Would provide a more stable revenue during this hard economy time as customers are more willing to pay for injuries or medication for their dogs with the humanisation aspect helping future revenues growth

- JRP has never had trouble meeting regulations in their industry and would have the best quality products and services in this new pharmacy space for pets

- Attract new customers into the business stores with the potential to create new life long lasting relationships.

Cons:

- Will take up shelf space in the limited stores to offer pet supplies and products which puts pressure and risk to replace those items with this new one

- Values and mission statement of providing customers with the best shopping experience will go against this as stores will have construction for 3 weeks during the renovations and change the dynamic of the stores once completed which hurts brand reputations and values

- Would need to get insurance for risk of injury which would hurt brand reputation and could be liable which hurts net income and potential future sales if reputation is hurt

- New regulatory environment which could increases costs and hurt the operating margins during years to figure out issues as this is a new side of the industry could be a long - term play and hurt current finances net income

Conclusion: This option should NOT be pursued by JRP as the financial are strong aligning with the BOD target of a high ROI but there is significant risk for Pet Pharmacies to succeed with JRP target market. The upfront costs of 4.5m are just too extreme to implement this brand new idea and industry to stores all at one time. In the end this does not align with BOD target of keeping investments to low risk options.

Pet Fresh:

Quantitative:

Seen in Exhibit 4 for full calculations. The aspect of inflation in the current economy and expected to stay for a couple of years makes the projections of this cash flow for pet fresh hard as the difference in prices could change by a lot with the resulting ROI having a large range of 6-21%. This provides and average or expected ROI of 10% given that both the moderate and high case have an equal chance or 50/50 of being chosen. Yes under all situations the expected profits are supposed to be positive and would generate a healthy operating margin. Impact on financial statements could be huge with inflation costs hitting the COGS and could eat away at the profit margins if continues in this direction. The quantitative ranges are large of ROI but do satisfy a positive return.

Qualitative:

Pros:

- Pet Fresh would take care of all the operational considerations which would free up time for JRP to focus on other initiatives they have going one while potentially building brand awareness and reaching new customers through the help of Pet Fresh

- New advertising method could hit their current and old customers which could increase customer traffic to JRP brands name and recognition to help increase sales

Cons:

- Risk is very high in this option which does not align with the BOD targets are with inflation this has a big impact on COGS and shipping with the fuel prices which eats into profit margins and risk a loss for JRP

- Economy is currently struggling with inflation and interest rates are increasing which increases likely that the inflation for these COGS will increase to be high and hurt profits

- Brand reputation can be hurt by trusting another company from Germany with product delivery and quality which goes against your values and mission/vision statement this can affect sales with potential lost customers with the company does not treat them the same as you would.

- Risk of food staying fresh in boxes again hurt brand reputation and future sales

- Each box contains luxury items which is used with disposable income and is not being used as much and decreasing as the Canadian economy is slowing down with high inflation

- This service had customers talk about how awesome it is to not go in stores to pick up the food which is a huge part of JRP and does not align with their vision or mission statements of the company

Conclusion: Do not pursue this option as the financial impact from this has a large upfront cost of 650k and the range of outcomes are massive which has big risks for JRP and does not align with BOD targets or their mission/vision statements as a company by using pet fresh to deliver the operational considerations.

Pet Pharmaceutical Distribution Agreement:

Quantitative:

Seen in Exhibit 5 for full calculations. This shows that 68.75m in PPC sales must take place before JRP can get a profit on the return from investment. There is a 500k upfront fee for this option to get started and has a high risk as JRP is the one who has to sell all the product in a new industry. This makes the assumption of consistent sales 16.5m risky but used in the financial calculations for the payback period and RIO of 24% and 4.17 years respectively. Variable costs are expected to be 2% but if this increases each year this will hurt the profit margins and increase the amount of break even which is possible with inflation targets. There is a low operating margin of 0.7% which is similar to the problem JRP was having with my last engagement of low operating margins and thus all those reasons are why from a quantitative perspective this should not be pursued.

Qualitative:

Pros:

- Brand new customer base with expected 16.5m in sales means that new customers are going to be walking into the JRP stores with the chance increased to attract them for both pet pharmaceutical and good/services that JRP also offers resulting in potential increased sales

- Would save 5% as a product discount for pet medicine which could help with COGS and the operating margin that has been a concern for JRP

- Would allow for relationships with veterinarians across Canada which aligns with mission statement and values to have these strong critical relationships that will be development even better over time

Cons:

- Large risk with a 500k upfront fee which is entire amount of the capital available without the bank finance put on JRP to sell all these products in a brand new industry

- JRP is new to the pharmaceutical distribution industry and thus has several regulations that could increase costs and stop them from being allowed to sell certain products as we only know they are approved in USA not Canada

- Risk of selling another companies products that claim to be high quality but are not your own and could risk brand reputation if product is not up to JRP standards hurting potential sales if customers are unhappy and leave

- JRP has never been a distributor before and knows knowing about the logistics causing higher risk of failed operations and lower profits

Conclusion: Do not pursue this options as the risks out way the rewards far to much. The brand new industry paired with a 68.75m sales price in order to break even is just to much risk for the BOD to take on for the ROI of 24% that is not worth it.

Strategic Direction:

The strategic direction for JRP is very critical right now during a time of global and Canadian economy that is suffering. Taking big risk right now is not be suggested and as noted a goal of the BOD to keep risk low while looking for the best annualised rate of return. This is in addition to providing the best quality products/services to customers and since the relationships are strong you are able to know future demand of what you offer will be. Staying in your industry and dominating it the best way you know how through diverse pet products and services will help JRP stick out during the tough economic times to come and keep loyal customers who are willing to spend the disposable income they have on your products/service.

Overall Conclusion:

Please see above calculation and analysis for full details on all the options and see my recommendations below.

First, pursue the expansion of premium dog camps with Gord and Irene. These two are the reason that BALA was successful and beat their exceptions for performance in the first full year of operations. Letting them walk and selling BALA for 6m would be a waste of the work put into the operations and not a high enough valuation where JRP could walk away with a large profit. This option to expand aligns with your values and the demand from the target market is there even in tough economy conditions. Turning a positive ROI with moderate to low risk is a clear option to use.

Second to go along with this is the Training + option that should be pursued as well with Irene running the training show out of BALA. The ROI for this option is over 70% and the risk is very low as customers are demanding for Irene to teach this service which helps to boost operating profits and brand reputation for entering into a new low risk market.

Next the Pet Pharmacy should not be pursed. This option does align with your mission/vision statements and core values to provide high services and new opportunity to build relationships and enter the industry but the risk to get this is just to high. With such high risk for failed sales and new regulations and competition or lack of demand paired with the upfront cost to revamp all 20 stores at once is just to much.

Similar Pet Fresh should not be pursed with a 650k upfront cost and handing over the rights for operations consideration does not align with who JRP is a company values or reputation. The risk of brand reputation being hurt is way to high and willingness to trust another company to follow all of JRP's customer best practices is not worth this option.

Last Pet pharmaceutical distribution should also not be pursed, the risk to break even by being responsible to sell all of PPC product in a brand new industry is way to high and extreme for the BOD targets and return they would be getting down the road. Breaking into a new industry with hard regulatory with the risk of being responsible for PPC product quality is not worth the reward and this overall option does not align with JRP's brand.

How to Finance:

See Exhibit 6 for full calculation breakdown. Based on my recommendations the offered bank loan of 7m will need to be accepted and 6.4m will be used with the other 500k from investment capital being used. As a result based on two low risk options based in the BALA department the ROI for the full year of these projects in 24.2%.

Exhibit 1
Purpose: To find the profitability of the proposed new dog camp option

This info comes from appendix 3

Description	Current BALA Location (ACTUAL)	Two New Potential Locations (Combined PROJECTION)		
Occupancy rate	60%	50%	70%	90%
Daily rate per dog	$ 105	$ 105	$ 105	$ 105
Max number of dogs per day	60	80	80	80
Days open per year	365	365	365	365
Total pet camp fees	$ 1,379,700	$ 1,533,000	$ 2,146,200	$ 2,759,400
Merchandise sales	500,000	605,500	800,000	1,000,000
Grooming	65,000	77,500	112,000	143,000
Pet owner stays	438,000	497,000	631,300	832,200
Total revenue	2,382,700	2,713,000	3,689,500	4,734,600
Total costs	1,366,540	1,965,100	2,096,000	2,116,920
Net income	$ 1,016,160	$ 747,900	$ 1,593,500	$ 2,617,680

New option cash flow	YR 0	YR 1	Payback period i	ROI	Notes
Upfront costs	- 6,800,000.00	747900	9.092124616	11%	50% occupancy rate
	- 6,800,000.00	1593500	4.267336053	23%	70%
	- 6,800,000.00	2617680	2.597720119	38%	90%
Average for 3 options			5.319060262	24%	assuming all outcomes are equally likely 1/3 chance

If not chosen then sell JRP for 6m valuation profit of 6m-4.8m - 1.2m
Bought just over a year ago for 4.8m

Conclusion: Therefore this proposed dog camp option based on the new potential locations has a 5.31 payback period and an average ROI of 24% with a range from 11-38%
Conclusion: If not chosen then 6m is a fair valuation for BALA

Exhibit 2
Purpose: Profitability of Training +

This is at BALA					
Upfront costs	-	100,000.00	e		
Revenue	1 week		2 week		notes
Courses offered per year		16.00		10.00	a
price per dog owner		2,000.00		3,500.00	b
dogs per course		12.00		12.00	c
Revenue		384,000.00		420,000.00	a*B*C
Variable costs	-	115,200.00	-	126,000.00	will be 30% of revenue
wage expense	-	99,200.00	-	124,000.00	1
Fixed costs	-	130,000.00	-	130,000.00	admin program
Net operating income		39,600.00		40,000.00	d
ROI		39.6%		40.0%	d/e
Payback period		2.53		2.50	e/d
Combined, operating income		79,600.00			
ROI		79.6%			
PAyback period		1.26			
operating margin		9.9%			
Without BALA					
extra rent fees	-	89,600.00	-	112,000.00	2
Net operating income	-	50,000.00	-	72,000.00	
ROI	-	0.50	-	0.72	
Payback period		-		-	

1 - wage expense				
will be 6200 for each week the course is offered				
weeks offered		16	10	2 weeks of these courses
		thus 20 total weeks		
thus there is 16 1 weeks and 20 weeks of 10 2 week courses				
	6200	36	total weeks	
total pay 6200*36		223200	together	
solo		16	20	
		99200	124000	times 6200
2 rent fees	5600 per week to use			
		16	20	f
		5600	5600	g
		89600	112000	f*g

Conclusion: This opporunity should only be pursued of BALA is being used as the location from a quantitative perspective as it has a high ROI and low payback period

Exhibit 3
Purpose: Pet Pharmacies rate of return calcs

Locations to be opening		20.00	c
renovation cost per location	-	225,000.00	b upfront costs
certified pharmacists	-	120,000.00	
Admin costs	-	77,500.00	
Revenue		460,000.00	a
Supplies costs	-	230,000.00	50% gross margir a*0.5
Operating incomeper store		32,500.00	
operating margin % per store		7%	
total operating margin		650,000.00	192,500*20
initial cost of renovations	-	4,500,000.00	b*c
ROI		14.4%	
Payback period		6.923076923	

Conclusion: With a strong ROI of 14.4% and just under 7 year payback period this option from a quantitative place has strong financials

Exhibit 4
Purpose: profitability of Pet fresh option

			notes	
Upfront costs	-	650,000.00		
New revenue		1,300,000.00	a	
COGS	-	520,000.00	40% of revenue	a*0.4
shipping expenses	-	300,000.00	1 uncertaintity with inflation	
admin expenses	-	200,000.00	1 - uncertaintity with inflation	
operating income current year		280,000.00		
profit		140,000.00	50% of all profit generated is JRP	
operating margin		10.8%		
payback period		4.64		
ROI		21.5%		

	Mod	high	avg	
COGS	- 561,600.00	-598000	-579800	
shipping	- 360,000.00	-420000	-390000	
operating income next year	178,400.00	82,000.00	130,200.00	
profit	89,200.00	41,000.00	65,100.00	50% of income if JRP
operating margin	0.07	0.031538462	0.050076923	
ROI	0.14	0.063076923	0.100153846	

Notes
1 - uncertaintiy with inflation

	current cost	moderate		high	
COGS	520000	1.08	561600	1.15	598000
shipping	300000	1.2	360000	1.4	420000
	b	c	b*c	d	b*d

Conclusion: With the range of uncertainity on shipping and COGS this has a huge impact on ROI with a range of 6% up to 21.5% in the current costs

Exhibit 5
Purpose: PPC product sales need to break even on investment

Could purchase on a discount for 5%			5 year term	
			notes	
Upfront costs	-	500,000.00	a	
Sell product annual		16,500,000.00	6% of a	c
JRP 6% fee on sales		990,000.00		
Fixed costs	-	540,000.00		
VC	-	330,000.00	2% of a	
operating income		120,000.00	b	
operating margin		0.7%	b/c	
ROI		0.24	b/-a	
payback period		4.166666667	they would need this long of sales to break even	
Breakeven sales		68,750,000.00	1	

notes
1- breakeven in sales JRP would need to begin to return the initial investment would be the annual product sales times the payback period duration

Conclusion: JRP would need to make 68.75m in sales of PPC products before they make a proft of ROI

Exhibit 6
Purpose: To Determine Financing options

			notes
Investment of Capital available		500,000.00	
Bank loan offered		7,000,000.00	
Option 1 - Expansion of premium dog	-	6,800,000.00	upfront costs
		1,593,500.00	1 YR operating income
Option 2 - Training +	-	100,000.00	upfront costs
		79,600.00	1 YR operating income
Option 3 - Pet Pharmacy		0	
pet fresh		0	
pet pharmaceutical		0	
total funds needed	-	6,900,000.00	a
expected change in operating income		1673100	
expected ROI		24.2%	
Can use 500k of the investment capital	b		
will need	-	6,400,000.00	a+b
Use 6.4m of the bank offered loan			

Conclusion: 500k of investment capital used and 6.4m of bank loan offer should be used

APPENDIX E

THE COMMON FINAL EXAMINATION
DAY 1 JRP VERSION 2 BOOKLET – SEPTEMBER 10, 2024

COMMON FINAL EXAMINATION
SEPTEMBER 10, 2024 – DAY 1

Case (JRP-Version 2) **(Suggested time: 240 minutes)**

It is July 15, 2025, and you, CPA, are still working at Quinton and Sparks Consulting LLP (QSC). J.R. Pets Inc. (JRP) has again engaged QSC to assist with JRP's strategic analysis and planning.

Since QSC's last engagement with JRP in 2023, JRP's Board of Directors has remained hesitant to make any major strategic investments. Rather than expand, JRP's board has remained focused on securing the stability of the company's existing 20 pet stores. As a result, JRP's board decided against the acquisition of Bella's Pet Friends Ltd., and did not provide the loan to Osler Farms Pet Kitchen Ltd. The potential investment in the premium dog camp, Bonheur des Animaux au Lac Agathe, was also declined. However, the board decided to renovate five of the company's pet stores to allow for more pet services. Although some of JRP's customers appreciated the new pet services that became available, the overall impact to JRP's bottom line was small, so the board decided against converting the company's remaining 15 stores.

Also, since 2023, the number of sales that JRP has made through its website has continued to increase. Although the online store was introduced by necessity during the global pandemic, it has become increasingly popular with some of JRP's customers.

In March 2025, a new shareholder and board member, Abby Clarke, joined JRP. Abby is a long-time JRP customer who inherited a significant sum of money. She sees a lot of potential in the pet industry and wanted to be part of JRP's team. Before joining JRP, Abby had a long and successful career in e-commerce, where she specialized in logistics. Abby used $5 million of her inheritance to buy shares of JRP.

For the past several years, JRP's net income has declined slightly from one year to the next. Given this continued decline, the board wants to implement a new strategic plan, to help ensure the company's survival and future success by increasing the company's net income. In addition, the board wants to prevent the continued decline of the company's existing pet stores.

The company's vision, mission, and core values have not changed. JRP currently has $5 million to invest (the amount received from Abby for her share issuance). No other additional investment capital is available, and JRP has no desire to access any further debt financing. When comparing investments, JRP's board typically uses a five-year time horizon and a discount rate of 4.9%, the company's weighted average cost of capital.

JRP's board has asked you, CPA, to review the information that has been provided and draft a report, in which you analyze and make a recommendation for each proposal presented. The board would also like you to comment on JRP's overall strategic direction and on how each proposal could influence that direction. For this engagement, please ignore any tax implications within your analysis and recommendations.

INDEX OF APPENDICES

APPENDIX I
BOARD MEETING WITH CPA IN ATTENDANCE

July 15, 2025

Julia: Thank you, CPA, for coming today. JRP is at a critical time. As the performance of JRP's stores continues to decline, a change is needed.

Elaine: That's right, Julia. And these decisions will be made harder, given the changing conditions within the pet industry. Although our pet stores are still profitable, our income has been squeezed due to increased competition and ongoing supply chain issues that our entire industry has faced since the beginning of the global pandemic.

Julia: Thankfully, our new shareholder and board member, Abby, has come at just the right time. The decisions made now will affect the business for years to come. Abby, I understand that you want to present an opportunity.

Abby: Yes, Julia—it involves manufacturing. At present, only a few dry dog foods available on the market offer exceptional quality and nutrition. This represents a significant opportunity, since dry food is the most purchased type of dog food. JRP could get into the manufacturing business and fill the void that currently exists.

Steve: That sounds interesting, Abby, but manufacturing food involves strict adherence to regulations that we know nothing about. Do we know what's involved in obtaining the necessary licences? Besides, JRP has always focused on selling fresh and frozen foods, which are viewed among pet owners as the most nutritious alternatives.

Elaine: True, but that's because we've never been able to find a dry food that meets our high standards. That being said, I question whether we would be able to secure the supply of necessary ingredients to manufacture the proposed food. Given the ongoing supply chain issues, our ability to manufacture food is limited by the amount of ingredients we can obtain.

Abby: Well, I happen to be friends with the owner of a nearby organic farm. She has offered to provide us with a significant supply of high-quality ingredients. From what I can tell, dry dog food made from these ingredients would be some of the best on the market. She currently sells her ingredients to a manufacturer overseas, but that contract is coming up for renewal, and she would rather work with a local company.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 15, 2025

Steve: I am worried, because we have no experience with manufacturing, or the process of developing product recipes, which would create extra challenges.

Richard: Yes, but I really like the idea. We could put our own brand on the product, which would help JRP build recognition. We could also supply other pet stores with this premium dry food.

Elaine: The upfront investment needed to begin this operation is $3.9 million. With that amount, we would be able to acquire the facility needed, renovate it, and equip it with state-of-the-art manufacturing equipment that could be used for all types of pet food—both dry and fresh.

Richard: Abby, do we know the quantity of ingredients your friend could supply us with?

Abby: Yes. Working with Elaine, we determined that, with the amount of ingredients my friend can provide, we would use approximately 60% of the proposed facility's capacity. Therefore, once we are up and running, we could expand what we manufacture to include many kinds of premium food.

Richard: Sounds exciting! Let's turn our attention to the next investment opportunity.

Our sales via JRP's website have continually increased since its launch in 2022. Regardless, it's clear that we have fallen behind our competitors in this area. Our online ordering system is outdated and hard to use. It's time we upgraded and fully entered the e-commerce world alongside our competitors.

Elaine: Focusing more on online sales would certainly align with market trends. But if we do, we would be competing with the biggest national chains. As a result, we might need to lower our prices somewhat, and that would cause our margins to fall.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 15, 2025

Richard: That’s true, but JRP could improve its fulfilment of online sales orders outside our local geographical region. This expansion would allow us to quickly ship our products all over Canada. Our sales would increase significantly.

If we decide to proceed with this investment, the upfront cost is $4.05 million. With that amount, we would acquire three fulfilment centres across Canada, where our products would be shipped from. Our average delivery time would be reduced from five days to just three. Included in the upfront cost is also the amount needed to upgrade our existing website, to improve its function.

Julia: I like the idea of having dedicated fulfilment centres that are separate from JRP’s existing stores. With our current process, our store employees are spending too much time packaging and shipping orders rather than helping in-store customers.

But I worry, because JRP’s reputation was built on superior customer service, which is an advantage we have over our competitors. I don’t think we can offer our customers the same type of experience online. And although some people do prefer to buy online, we hear from our customers all the time how much they love coming into one of our locations. We still have a strong demand for in-store purchases.

Elaine: And what about the ongoing industry-wide supply constraint? We are already having a hard time stocking our store shelves.

Steve: At some point, the supply chain will be restored to its pre-pandemic level, although experts don’t know how long that will take. But it’s not like JRP is the only company struggling with this, and we might be able to find other suppliers to help us build our inventory.

Abby: Regardless of the challenges, I think this is a great opportunity. With my background in e-commerce and logistics, I would be able to take the lead on this project. Over time, it could become a cornerstone of JRP’s business.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 15, 2025

Julia: Okay. Let's move on. BeWild Foods (BWF) is a small and relatively new premium pet-food manufacturer that produces a unique product line consisting of 100% raw food. At present, they only sell their products at JRP stores. BWF's products have quickly become a favourite with JRP's customers, and we regularly sell out of them. But at BWF's current level of production, they only have enough inventory to stock a few of our Ontario stores. They want to expand production but need our help to do so.

Steve: In recent months, BWF has been in contact with me, asking for advice on the best way to find additional manufacturing space. To scale up production, they need a larger facility.

Abby: Logistically, it would be a challenge to ship BWF's fresh, raw-food products over even a short distance. There is a risk that the food spoils in transit.

Elaine: But this is a niche product line that is in high demand, and one that our competitors don't offer. Because BWF's products need to be kept refrigerated and fresh, they can only be offered in-store, which has drawn more customers to JRP locations.

Also, BWF has a lot of potential. One of BWF's owners is a pet nutritionist and the other is a food chemist, both of whom have a lot of experience. I expect they will continue to release new and innovative product recipes as time goes on. Julia, what has BWF proposed?

Julia: They want us to become part of their business! For $578,000, JRP could acquire a 20% equity stake in BWF. They believe both companies have a better chance of success if we team up.

Abby: I'm not convinced. Although they have been successful so far, their business and team are not yet proven. I don't want us to sink our time and effort into helping a new company get on their feet. And with the ongoing industry supply constraint, how do they intend to find the additional ingredients they will need, to scale up their production?

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 15, 2025

Elaine: Although I like BWF, Abby raises a good point. And because BWF's food is of the highest quality, their ingredient costs are also high, so the profit margin of their products is lower than that of other food manufacturers.

Steve: Moving on, we have an opportunity to change the way we offer pet supplies. Koda Co. (Koda) is a pet-supply company that produces private-label pet supplies for stores such as JRP. They are giving us the opportunity to sign a purchase agreement that would allow us to replace most of the pet supplies we currently offer with JRP-branded products.

Richard: I have heard of Koda. They are a respected company that has been around for a while. Given their size, they have been less affected by the industry's ongoing supply chain issues.

Steve: One thing to note is that the agreement comes with an annual minimum purchase guarantee, which means that JRP would face a penalty if we failed to purchase that amount of product from Koda. Based on the amount of pet supplies JRP purchased last year, we would have met this threshold if we made all those purchases through Koda.

Julia: That means we will likely need to sever the long-standing relationships we have with our current providers of pet supplies if we agree to this purchase agreement. And how are we supposed to build a relationship with a company the size of Koda? What kind of quality can we expect from Koda's products?

Richard: Their products have a standard, mid-range quality—not cheap, but not premium either. One advantage of this is that our overall cost to purchase pet supplies would go down somewhat.

Julia: Our customers are used to high-quality products. This seems like a pretty big change from what JRP has historically been known for.

Elaine: You're not wrong, Julia, but most of our current suppliers are smaller businesses than Koda, and are struggling to fill our orders because of supply chain issues. I would rather have a mid-range selection of pet supplies to stock our shelves with, than nothing at all.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 15, 2025

Steve: As well, the agreement has no upfront cost and would provide plenty of room for growth. Koda is confident that they would be able to fulfil our orders well above the minimum purchase guarantee. This contract offers us the ability to rid ourselves of the supply constraint for many years to come.

Abby: Okay, we have one last opportunity to discuss. My previous employer, Pro Software Consultants (PSC), builds mobile applications for small- to mid-size retail companies similar to JRP. The app is fully customizable and comes with a suite of modules to choose from. We could use this app to implement things such as an improved loyalty program, or to provide valuable information to customers. We could even use the e-commerce module to drive up our online sales.

Julia: My concern is that this would drive customers away from visiting JRP stores because they could just use the app to purchase our products. As well, we can't offer JRP's superior in-store customer service through a mobile application.

Steve: I hear what you're saying, Julia, but if we don't get with the times, we'll be left behind.

Abby: Also, I think you might be surprised at how well PSC's applications function. Typically, PSC receives great reviews from their customers. Plus, we could choose only the modules that make sense for our business and strategic direction. We might even be able to continue to provide exceptional service in different ways!

Julia: I am not opposed to upgrading our technology, but I just want to ensure that JRP remains known as a company that cares about its customers and serves them with great pride.

CPA, with all that in mind, can you have a look at the opportunities available? Meeting adjourned.

APPENDIX II
INDUSTRY UPDATE

During the global pandemic, online sales increased as it became harder for customers to visit physical stores. Large retailers who already had a strong online presence prior to the pandemic experienced a growth in sales, whereas smaller retailers struggled to keep up. At present, some customers have returned to making most of their purchases in-store, but others have become accustomed to purchasing items online. Online purchasing is especially prominent with the younger generations, who tend to use their mobile phones to make online purchases.

The effects of the pandemic on the global supply chain are still ongoing. It has become a challenge for many retail companies—especially small- to mid-size companies—to reliably stock their shelves with products. There is a debate about how long the supply chain issue will last. Some experts think the flow of goods and products should return to pre-pandemic levels within a year or two from today, while others estimate that it could take up to four years. In addition, some goods and products will become available before others.

Specific to the pet industry, it has become challenging for retailers to acquire their desired levels of both pet food and pet supplies, so those that have successfully secured their supply of products have experienced a growth in sales. Small retailers have struggled more than larger retailers in this respect—especially small retailers that do not have strong relationships with their suppliers. Manufacturers of pet food have also struggled due to supply chain issues, because of increased competition for the ingredients needed to produce pet food.

Finally, the trend toward purchasing premium, high-quality pet food and pet supplies has continued to increase. Fresh and frozen pet food is still the most popular premium choice for pet owners; however, the demand for premium dry food has also increased, given that it is less expensive and has a longer shelf life.

APPENDIX III
MANUFACTURE JRP-BRANDED DOG FOOD

Prepared by Elaine

The facility and equipment we would purchase for manufacturing JRP's new dog food has the capacity to produce a total of 1.8 million kilograms of dry food per year, whereas the quantity of ingredients from Abby's friend would only allow us to produce a maximum of 1.08 million kilograms of dry food. We have not developed a product recipe yet; however, we already know that, in addition to the ingredients that Abby's friend can provide, we will still require a few more ingredients before we have all that is needed to complete the production of the first 1.08 million kilograms of premium dry dog food. Because of that, we still need to find a few more suppliers that can provide these additional ingredients.

We estimate that we can sell this dry dog food for $5.90 per kilogram. Given the product's superior quality, I estimate that we will be able to achieve a 60% gross margin on these product sales. We could even offer JRP's existing loyalty reward members a discount if they purchase this new product in stores. The annual fixed overhead costs of running the operation would total $2.85 million.

APPENDIX IV
EXPAND E-COMMERCE OPERATIONS

Prepared by Richard

Given my market research, and the size of our three proposed fulfilment centres, I estimate that JRP's annual online sales could increase by as much as $7,529,000. However, because of the ongoing supply constraint, I suspect we could currently achieve only 80% of that maximum increase in sales. In addition, I estimate that around 15% of the online orders we receive will be from customers who would have otherwise made that purchase within a JRP store.

The gross margin on these sales will equal 45%, the same margin that we currently earn from in-store sales. All applicable shipping costs will be added to the customer's bill at checkout. The annual overhead costs of running the operation would equal $1.35 million.

APPENDIX V
PURCHASE EQUITY IN BEWILD FOODS

Prepared by Julia

During 2024, JRP's revenue from the sale of BWF's products was $225,000, and had a gross margin of 25%. As part of BWF's proposal, if JRP becomes an equity investor, BWF will decrease what they charge JRP for their products so that JRP's gross margin would increase by 5%. BWF would also formally agree to only sell their products through JRP.

At BWF's current volume, JRP is only able to stock five of its Ontario store locations with BWF products. With JRP's investment, BWF would be able to expand production to the point that they could stock an additional 10 JRP stores (with roughly the same amount of product per store that they currently provide to JRP).

BWF intends to use JRP's investment to lease a bigger manufacturing facility, and buy the equipment necessary to increase their production volumes.

APPENDIX VI
KODA CO.'S AGREEMENT

Prepared by Steve

In 2024, JRP's total revenue from pet supplies was $13.5 million, with a gross margin of 30%. If JRP were to have stocked and sold only Koda's products, there would have been a 15% drop in revenue, given that Koda's products are priced lower when compared to what we currently offer. However, that drop in revenue would have been offset by an increase in gross margin, which would equal 40% on all Koda products that are sold.

Additional terms provided by Koda are as follows:
- Total annual purchase minimum will be $6.5 million.
- All products purchased will be branded with the JRP logo.
- The agreement has a term of eight years, with a $1 million penalty if JRP cancels the agreement prior to the end of the term.

APPENDIX VII
PRO SOFTWARE CONSULTANTS APP DEVELOPMENT

Prepared by Abby

The cost of the base mobile application platform is $250,000, and its annual maintenance cost is estimated to be $12,000. To give the application its functionalities, at least one module needs to be built on top of the base platform. PSC offers a series of modules that can be added, to increase the functionality of the mobile application. Here are some of the modules available that might be applicable to JRP:

Module	Investment	Annual Maintenance
E-commerce	$ 236,000	$ 95,000
Loyalty program and marketing	$ 114,000	$ 4,000
Learning and information library	$ 74,000	$ 3,000

Further details for each module are as follows:

E-commerce

This module will provide a user-friendly shopping experience for JRP customers who want to make purchases directly within the mobile application. The forecasted annual increase in JRP's gross profit from these mobile app sales is expected to be $432,000.

Loyalty program and marketing

This module will allow customers to earn loyalty reward points for their online purchases, whereas this is currently only possible for in-store purchases. This module will also connect the loyalty program across all of JRP's stores. Finally, it will give JRP direct access to customers, to notify them of marketing initiatives such as discounts, sales, and promotions. The forecasted annual increase in JRP's gross profit from this module is expected to be $87,000.

Learning and information library

This module will give JRP's customers access to a library of product information, advice, blog posts, and online courses on various pet topics. JRP would be responsible for producing the content. JRP could choose to make the information free, or charge a small subscription fee. If JRP charges a subscription fee, the forecasted annual increase in JRP's gross profit from this module is expected to be $23,000.

APPENDIX F

DAY 1 (JRP VERSION 2) – SEPTEMBER 10, 2024
MARKING GUIDE AND SAMPLE CANDIDATE RESPONSE

MARKING GUIDE
J.R. PETS INC. (JRP)
VERSION 2

Summative Assessment #1 – Situational Analysis

For Summative Assessment #1, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate used a reasonable situational analysis when analyzing the major issues facing JRP.

Unsure – The candidate attempted to use a reasonable situational analysis when analyzing the major issues facing JRP.

No – The candidate clearly did not use a reasonable situational analysis when analyzing the major issues facing JRP.

Based on the 2022 Competency Map:

Technical Competency
2.3.2 Evaluates the entity's internal and external environment and its impact on strategy development

Enabling Competencies
1.4.1 Performs work carefully, thoroughly and competently in accordance with relevant technical and professional standards
2.1.1 Applies knowledge of the organization's competitive environment and strategic direction when performing assigned work
2.1.3 Identifies the strategic impact of internal decisions and external influences on project plans and initiatives
6.1.1 Identifies and articulates issues within areas of work responsibility
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses

The candidate is expected to complete an appropriate situational analysis. The candidate should draw upon their situational analysis when analyzing the major issues facing JRP (whether to invest in a manufacturing facility, expand into e-commerce, enter a partnership with a premium pet food supplier, enter a purchase agreement for private-label pet supplies, and develop a customized mobile application). The candidate should also identify and discuss the industry-wide supply constraint and how that will affect their analysis of these major issues.

Current Situation

Since Quinton and Sparks Consulting LLP's (QSC) last engagement with JRP, JRP's business has been challenged by two main factors: increasing competition; and an industry-wide supply constraint that is limiting JRP's ability to obtain the necessary inventory, to reliably stock the company's pet stores. These challenges have caused the performance of JRP's pet stores to decline slightly each year.

JRP has a new investor and board member—Abby Clarke. Abby invested $5 million in JRP after she inherited a significant sum of money. Before joining JRP, Abby had a long and successful career in e-commerce, where she specialized in logistics.

Vision/Mission and Core Values

JRP's vision, mission, and core values (approved by the Board of Directors in 2019) are as follows:

Vision statement: *"To create a better everyday life for pet owners and their pets by providing the highest quality of healthy, innovative, fun, and safe products for cats and dogs in stores that are staffed by pet-loving and knowledgeable people."*

Mission statement: *"We are committed to meeting all the needs of pet owners and pets by providing superior products that will keep pets healthy and happy throughout their lives. We want to give our customers the most captivating shopping experience that will ensure life-long relationships and loyalty. We want to be relevant not only to pets and pet parents, but also to our communities by supporting local animal-related charities."*

JRP has six core values (from Capstone 1):
1. Have a positive impact on our pet parents and create lasting relationships
2. Sell only the highest-quality products that will foster healthy and happy pets
3. Provide pet parents with knowledgeable advice on products, to help them make the right decision for their pets
4. Value, develop, and reward contributions, service, and skills of our employees
5. Act always with the highest ethical standards, integrity, and honesty
6. Care about, be involved in, and give back to our local communities

Objectives

Given the deterioration in the company's earnings, JRP's directors want to implement a new strategic plan, to help ensure the company's survival and future success. The board would like to focus on increasing JRP's net income. In addition, preference will be given to any investments that help prevent the continued decline of the company's existing pet stores.

Available Cash Flow /Financing

For any new strategic investments, JRP currently has $5 million of investment capital available—the amount that Abby invested in JRP. No other additional investment capital is available, and JRP's board has no desire to access any further debt financing.

Candidates are NOT expected to recap KSFs or do a SWOT in detail. However, they must draw upon these in their analysis of the strategic options presented.

Key Success Factors (KSFs) (from Capstone 1)

KSFs in the pet store industry include the following:
- Attractive and eye-catching product presentation and displays, to promote buying
- Experienced and knowledgeable sales staff, to provide advice for customers on their specific requests
- Locations in high-traffic and visible areas, to maximize traffic into the stores
- A wide range of products to offer at various price levels and quality, to attract all types of customers
- Consistent and good-quality products, to ensure ongoing customer satisfaction and continued customer loyalty
- Strong relationships with manufacturers and distributors, to allow pet stores to purchase high-quality goods at a lower cost
- Investment in good technology and information systems, allowing the store to control and record merchandising, distribution, sales, and stock markdowns

SWOT Analysis

<u>Strengths:</u>

- JRP has a new board member and investor—Abby Clarke. Along with her investment capital, Abby brings her experience in e-commerce and logistics to JRP's board. In addition, Abby has a friend who owns an organic farm, which may be able to supply JRP with the ingredients the company would need for manufacturing its new dry dog food.
- Despite the ongoing challenges, JRP's pet stores are still profitable. This shows that the company is resilient, even when faced with significant challenges.

- The company has $5 million to invest in new projects. If invested wisely, JRP could help secure the company's future success. This also allows the company to diversify its business away from only offering brick-and-mortar pet stores.
- JRP's superior customer service still sets the company apart from its competition. Many customers mention how much they love going into a JRP store, so the company still has a strong demand for in-store purchases.
- JRP has strong relationships with its suppliers. This has likely somewhat helped the company weather the ongoing supply-constraint issues that the industry is facing, as the constraint has been worse for smaller companies who do not have strong relationships with their suppliers.

Weaknesses:

- Despite investing the company's time and resources into renovating five of JRP's pet stores in order to provide more pet services, the company's bottom line has not improved.
- The company's financial performance has weakened over time, given increasing competition and the supply constraint that is affecting the entire industry. If nothing is done, the company's financial performance could decline further.
- JRP's online ordering system is outdated and only functions well with desktop computers. If JRP does not upgrade this function, the company could lose sales and customers as those customers look for companies whose online functions are more modern and convenient.
- Given its smaller size relative to the bigger companies in the industry, the supply-chain issues that are affecting the industry is affecting JRP more severely, given that most of JRP's suppliers are also smaller companies that are having difficulty procuring product.
- At present, the staff who work in JRP's pet stores are burdened with not only helping customers in the store but also fulfilling the online orders that JRP receives. This makes it less likely that JRP's staff can provide the in-store customers with superior customer service.

Opportunities:

- JRP has the opportunity to invest in a manufacturing facility and therefore diversify the company's revenue streams. According to Abby, there is a particular opportunity to manufacture a premium dry dog food, given that there are currently only a few other alternatives.

- JRP can make an investment in three fulfilment centres and therefore expand into the e-commerce side of the pet retail industry. As more customers make their purchases online, JRP can take advantage of this trend by improving the company's ability to capture that market by providing an effective online ordering service.
- JRP could become a 20% owner of BeWild Foods (BWF), a relatively new company that produces high-quality raw pet food. BWF's products are highly popular and, by agreeing to the investment, BWF would be able to stock 10 additional JRP pet stores with BWF's highly popular food products. There could also be other synergies between these companies, especially if JRP decides to expand into manufacturing.
- JRP could alleviate the company's current supply constraint for obtaining pet supplies by signing a new agreement with Koda's Pet Supply Co. (Koda). This agreement would also allow JRP to provide JRP-branded pet supplies in its stores because Koda is offering a private-label product.
- JRP could choose to invest in and offer a custom mobile application that would allow JRP's customers to engage via mobile phone with JRP's business. This application would help JRP's business come more in line with its competitors in terms of technology, and provide the ability to purchase the company's products online.
- The trend of pet owners purchasing premium, high-quality pet food and pet supplies continues to increase. This is good for JRP, as it matches the company's typical product offering.

Threats:

- The Koda contract would likely mean that JRP would need to sever ties with the company's existing suppliers of pet supplies. JRP has spent many years building these business relationships. Severing these relationships could have unforeseen consequences.
- The more JRP moves into the online world, the more the company could lose focus on doing what it does best: providing exceptional in-store service to the company's loyal customer base. In addition, there is more competition online, such as from the industry's largest companies, so JRP would likely need to lower its prices in order to compete.
- The global pandemic drove the number of online sales higher. The companies that already had a strong online presence prior to the pandemic benefited from this increase whereas smaller companies such as JRP experienced a drop in sales. More customers now prefer to make their purchases online, so if JRP does not at least improve the company's online purchasing function, it may lose customers.

- The pandemic has caused the global supply chain of goods and services to slow down. This has made it a challenge for retail companies such as JRP to stock their shelves. Both JRP's existing business, as well as most of the investment opportunities available to the company, are being affected by this ongoing issue. However, this issue will go away at some point as the supply chain normalizes. According to industry experts, this could take anywhere from one to four years. However, some goods and products will become available before others.

Conclusion

JRP has a big opportunity to use Abby's $5 million investment funds to grow and protect the company's future. However, the ongoing industry supply constraint is a major factor that is currently affecting JRP's existing business, as well as the investment opportunities that are available. That being said, the supply constraint will lift at some point, as the global supply chain of goods and products returns to its pre-pandemic levels. Although there is some uncertainty about how long this will take, industry experts agree that it will happen. Therefore, JRP should be cautious when making any major decisions that will affect the company long-term based on the supply constraint, because at some point (and perhaps in the near future), this constraint will be resolved.

Summative Assessment #2 – Analyzes the Major Issues

For Summative Assessment #2, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate sufficiently completed a reasonable assessment of the major issues facing JRP.

Unsure – The candidate attempted to complete a reasonable assessment of the major issues facing JRP.

No – The candidate clearly did not complete a reasonable assessment of the major issues facing JRP.

Technical Competency
2.3.3 Evaluates strategic alternatives

Enabling Competencies
1.1.3 Exhibits ethical behavior by complying with laws and regulations, organizational policies, societal norms and personal ideals
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.1.3 Demonstrates skepticism, objectivity, due care and persistence when identifying issues
6.2.3 Questions the relevance and tests the quality of information and assumptions in own analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives

This summative assessment is based on Assessment Opportunities #2 to #6.

Assessment Opportunity #2 (Strategic Alternative #1: Manufacture pet food?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should expand its business into manufacturing, beginning with a premium dry dog food.

Quantitative analysis: The candidate should calculate the projected NPV of the potential investment and comment on the capacity usage of the facility, and how the value of the investment would change, depending on how much of the facility's capacity is used.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of the potential expansion into manufacturing. The candidate should also discuss how this investment may affect JRP's existing pet stores.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

JRP's board would like to assess whether the company should invest in a manufacturing facility and therefore diversify the company's revenue streams. According to Abby, there is a particular opportunity to manufacture a premium dry dog food, given that there are currently only a few other alternatives available.

Quantitative Analysis

The initial cost of this strategic investment equals $3.9 million. For this amount, JRP would be able to acquire the necessary facility, renovate it, and equip it with state-of-the-art equipment that would allow the company to manufacture both dry and fresh pet food. Based on the company's preferred parameters for comparing investments (a five-year time horizon and a rate of 4.9%), the following net present value analysis was completed:

Year	0	1	2	3	4	5
Revenue (1,080,000 kg @ $5.90/kg)		6,372,000	6,372,000	6,372,000	6,372,000	6,372,000
COGS (@40% to achieve 60% GM)		2,548,800	2,548,800	2,548,800	2,548,800	2,548,800
Gross profit		3,823,200	3,823,200	3,823,200	3,823,200	3,823,200
Overhead		2,850,000	2,850,000	2,850,000	2,850,000	2,850,000
Operating income		973,200	973,200	973,200	973,200	973,200
Investment	$ (3,900,000)					
PV	$ 4,225,119					
NPV	$ 325,119					
Payback period	4.01					

As can be seen above, this project has a positive net present value, which means that the investment is expected to generate a return that is greater than the board's requirement. It is important to note that this assumes that JRP will be able to sell all the product that it manufactures, and that these additional sales would not cannibalize any of JRP's existing sales of dog food. However, at least some cannibalization is likely, but given that this is a different type of product (dry dog food rather than the fresh/frozen dog food that JRP has always focused on selling), this amount is not expected to be significant. This analysis also assumes that JRP will begin to generate revenue one year after the initial investment is made. This assumption could be overly optimistic, given the length of time it could take to prepare the facility and acquire the necessary ingredients and licences. These important assumptions should be assessed for reasonability prior to making a decision.

However, it is also important to point out that the investment's return could increase significantly if JRP is able to procure an additional supply of product ingredients. This is because the above analysis is based on the amount of supply that JRP has been offered by Abby's friend (1.08 million kg), whereas the facility has the capacity to produce 1.8 million kilograms of pet food annually. Given that the industry's supply constraint will lift at some point in the future, this investment looks to be a strong one from a quantitative perspective.

Qualitative Analysis

Advantages:

- As Abby mentioned, there are only a few dry dog foods available on the market that offer exceptional quality and nutrition; therefore, if JRP enters this space and is able to successfully produce a high-quality and nutritious dry dog food, the company would not have a lot of competition. This could help ensure the sales of JRP's new pet foods.
- Dry dog foods, which JRP currently does not focus on, are the most purchased type of dog food. By adding this type of product to JRP's existing product line, the company could attract more customers to JRP's existing stores and could satisfy, to a greater degree, the company's current customers. This is in keeping with the board's desire to invest in projects that benefit JRP's existing business.

- Abby has a friend who owns a nearby organic farm, and has offered JRP a significant supply of apparently high-quality ingredients. This supply would be a significant benefit to JRP and this potential investment, especially given the ongoing industry supply constraint.
  - While Abby's friend can apparently provide a large amount of high-quality ingredients, JRP currently does not know for certain whether those ingredients are actually of the quality that would be required for producing the proposed dog food. Before JRP moves forward with this option, a thorough due diligence process should be conducted over this potential supplier, and a supply agreement should be established.
- JRP would be able to sell the new product through its existing stores but also through other pet retailers. This would increase JRP's scope, and would help build the company's brand, as the product would be branded as a JRP product.
- As Abby pointed out, once the facility is up and running, JRP would be able to expand its product offering to include many other kinds of premium food. This represents an opportunity for the company to enter an additional aspect of the industry's supply chain and therefore diversify the business.
- Given the ongoing industry supply constraint, if JRP were to manufacture this new premium dry dog food product, there will likely be a high demand from other retailers who are seeking to stock their shelves with quality products. This could help ensure the successful launch of JRP's new dog food.
- The industry's trend toward premium, high-quality pet food has continued to increase, and the demand for premium dry food has also increased, given that it is less expensive than fresh or frozen pet food and has a longer shelf live. JRP could take advantage of this trend by manufacturing and offering this new product.
- JRP could offer its existing loyalty reward members with a discount if they purchased this new product in JRP's stores. Not only would this perk satisfy JRP's existing customers, but it would also help to bring more customers back into JRP's physical stores. This aligns with the board's desire to invest in projects that could help secure the success of the company's existing pet stores.

Disadvantages:

- As Steve mentioned, manufacturing pet food requires a strict adherence to regulations that the company currently has no knowledge of. It will take JRP time to acquire this knowledge, as well as any licences that are required for entering this segment of the business. This could slow down the process and cause unforeseen challenges.

- JRP has always focused on selling fresh and frozen foods, which are viewed as the most nutritious alternative among pet owners. Adding a dry dog food to JRP's product line would therefore be a departure from JRP's historic offering. However, because the proposed new product will be of a high quality, this should not pose much of a problem to JRP's existing business, as the company will still offer all the products that it did previously, with the addition of this new product.
- The ongoing industry supply constraint will pose a challenge to this strategic alternative. Although Abby's friend has an organic farm, which appears to have a significant supply of high-quality ingredients, it is still expected that JRP will need to seek out other suppliers before the company has what it needs, to produce its proposed premium dry dog food. This could be challenging, given the supply constraint. Before JRP moves forward with this option, it should be determined whether obtaining these ingredients will be possible.
- As Steve mentioned, JRP has no experience with manufacturing, or the process of developing product formulations. In addition, JRP has yet to develop the product formulation that the company will use for its premium dry dog food. This is a crucial step that must be addressed before JRP moves forward with this option. Perhaps JRP can hire the necessary experts, to help the company establish its first product formulation.

Conclusion

There are two main risks that could affect the viability of this investment: JRP's lack of experience, and the industry's supply constraint. Prior to making this investment, JRP needs to investigate the regulatory landscape, to ensure that the company can properly adhere to whatever regulations currently exist. In addition, the company needs to work on developing a product formulation for the proposed premium dog food. Then, the company needs to assess whether it will be able to procure the necessary quantity of ingredients that it will need in order to produce the new product. If these risks can be mitigated to a comfortable degree, this investment opportunity appears to be a strong one. If not, this investment opportunity would be highly risky to pursue.

Once the supply constraint is lifted and the company can begin to utilize 100% of the new facility's capacity, it meets the company's quantitative and qualitative objectives and offers JRP a significant amount of future upside. This alternative should be strongly considered.

Assessment Opportunity #3 (Strategic Alternative #2: Expand e-commerce operations?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should expand into e-commerce by upgrading the company's online processing system and purchasing three fulfilment centres dedicated to completing JRP's online orders.

Quantitative analysis: The candidate should calculate the projected NPV of the potential investment and comment on how that projection could change, depending on variables such as the industry's ongoing supply constraint and the estimated gross margin of the project.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of the potential further expansion into e-commerce. The candidate should also discuss how this investment may affect JRP's existing pet stores.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

JRP's board wants to assess whether the company should make an investment into three fulfilment centres and thereby expand into the e-commerce side of the pet retail industry. As more customers make their purchases online, JRP can take advantage of this trend by improving the company's ability to capture that market by providing an effective online ordering system.

Quantitative Analysis

The initial cost of this strategic investment equals $4.05 million. For this amount, JRP would be able to acquire three fulfilment centres across Canada, from which the company's products would be shipped. Also included in the upfront cost is the amount needed to upgrade JRP's existing website, to allow customers to more easily use JRP's website (given that JRP's current online ordering system is outdated and hard to use).

First, the following annual revenue estimate was generated, based on the information provided by Richard:

Revenue from e-commerce – maximum	$7,529,000
Reduction in revenue due to current supply constraint	(1,505,800)
	6,023,200
Revenue cannibalized from in-store purchases	(903,480)
Maximum potential revenue after adjustments	$5,119,720

Next, based on the company's preferred parameters for comparing investments (a five-year time horizon and a rate of 4.9%), the following net present value analysis was completed:

Year	**0**	**1**	**2**	**3**	**4**	**5**
Revenue		5,119,720	5,119,720	5,119,720	5,119,720	5,119,720
COGS (@ 45% GM)		2,815,846	2,815,846	2,815,846	2,815,846	2,815,846
Gross profit		2,303,874	2,303,874	2,303,874	2,303,874	2,303,874
Overhead		1,350,000	1,350,000	1,350,000	1,350,000	1,350,000
Operating income		953,874	953,874	953,874	953,874	953,874
Investment	$ (4,050,000)					
PV	$ 4,141,216					
NPV	$ 91,216					
Payback period	4.25					

Similar to the manufacturing investment option, this strategic investment is projected to have a positive NPV. However, compared to the manufacturing option, this investment's projected value is lower. In addition, the assumptions provided for this projection should be questioned. First, is it possible that the supply constraint would only cap the maximum revenue increase at 80%? Second, the gross margin used is 45% whereas, as Elaine pointed out, given that JRP would be competing with the largest national chains, the company may have to lower its prices. As a result, this gross margin assumption may be overly optimistic. Third, the analysis also assumes that JRP will begin to generate revenue one year after the initial investment is made. This assumption could be overly optimistic, given the length of time it could take to prepare the three fulfilment centres for use. Finally, as Richard pointed out in the information he provided, these assumptions are for the *maximum* amount of revenue that JRP may receive from the project, so it is possible, especially during the first few years of operation, that this project does not reach its maximum amount.

Therefore, unlike the manufacturing option, this investment's projection appears to have several assumptions that could be overly optimistic. If this turns out to be the case, it is possible that the return offered by the expansion into e-commerce would fall below the board's requirement.

Qualitative Analysis

Advantages:

- JRP's new board member, Abby, had a long and successful career in e-commerce and logistics prior to joining JRP. Her expertise could be essential in helping this project become successful.
- Although the number of sales that JRP makes via its online ordering system has increased since its launch in 2022, the company has fallen behind its competition in this area. This expansion would help JRP come in line with the competition by making its online ordering system more modern. This could help retain and attract more customers to JRP's business.
- The industry has seen an increase in online sales; therefore, if JRP makes this investment, it will align itself with a clear market trend. If JRP continues to use its outdated system, the company could end up losing customers to companies with a more effective online ordering system.
- By investing in the three fulfilment centres, JRP would expand the geographical region that it could effectively service via online sales. At present, the company's delivery time averages five days, whereas after the expansion, it would fall to only three. This would likely be appreciated by JRP's customers, given that there are other major online retailers (e.g., Amazon) that offer quick shipping.
- The geographical expansion may also help JRP gain more national exposure, and could help the company expand its physical stores in later years.

- At present, with the current online ordering system, JRP's in-store employees are burdened with packing and shipping online orders rather than helping the customers who are in the store. This could diminish JRP's reputation as a company that provides exceptional customer service. By expanding as described, JRP's in-store employees would be alleviated of this pressure, and could return to focusing on the customers who are in the store.
  - However, it would also be possible for JRP to alleviate this issue by simply hiring an additional staff member at each existing store, who would be responsible for packaging and shipping online orders.
- Since the pandemic began, some customers have moved to purchasing their products online. At present, some of those customers have become accustomed to purchasing items online and are reluctant to go back to stores. By investing in e-commerce, JRP could align itself with these customers' preferences.

Disadvantages:

- As Richard's projection shows, JRP expects to sell an additional $5 million of product through the proposed fulfilment centres. Although that is an attractive figure, the company must also determine whether it will be able to secure the inventory that would be required to fulfill these sales. The ongoing industry supply constraint may make this a challenge. It may be possible to find other suppliers to help build JRP's inventory, but it also may not be. Before JRP decides to move forward with this option, it should conduct a thorough analysis of whether stocking the new fulfilment centres will be possible.
- Expanding its e-commerce operation would mean that JRP would begin to compete more directly with many more companies, such as some of the biggest national chains. This could mean that JRP would need to lower its prices in order to attract more customers. Depending on how far the company needed to lower its prices, this investment could become less and less able to meet the company's objectives. In addition, JRP may need to aggressively market the company in order to become nationally recognized, which could be costly.
- As Julia mentioned, JRP's reputation was built on superior customer service, which is something that the company will struggle to provide online. It is possible that JRP will not be able to compete well against the big industry companies without its signature competitive advantage.

- JRP still has a strong demand for in-store purchases. By investing further in e-commerce, it is possible that the company would lose focus on fostering the growth and security of its existing physical pet stores (which is one of the main objectives of the board).
  - This disadvantage is further evidenced by the cannibalization of in-store purchases that Richard assumes will occur. Again, this is not in keeping with the board's desire to invest in projects that will help secure the future of the company's existing business. Is it possible that more cannibalization will occur?

Conclusion

Overall, this option appears to be viable but is not without risk. First, the assumptions used in the investment's quantitative analysis could be overly optimistic, and should be further analyzed and verified before a final decision is made. Second, this project may violate the board's objective for any investments made to help secure the company's existing business. This is because JRP's existing in-store sales will partially be cannibalized by the new online ordering system. However, as one benefit to JRP's existing stores, in-store employees will no longer need to spend time packaging and shipping online orders.

It is also questionable whether JRP will be able to effectively compete with all the other companies that offer pet products online. JRP's main competitive advantage has always been superior customer service, which could be hard to replicate online. Nevertheless, with Abby's expertise, it is possible that JRP could navigate these challenges, to effectively expand the e-commerce world of pet retail further. Finally, like the manufacturing option, this investment's financial viability should improve once the industry's supply constraint is resolved.

Assessment Opportunity #4 (Strategic Alternative #3: Partner with BeWild?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should acquire 20% of BWF.

Quantitative analysis: The candidate should calculate the projected NPV of the potential investment and comment on how that projection could change, depending on variables such as BWF's ability to obtain the necessary ingredients, to successfully expand their production capability.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of the potential investment into BWF. The candidate should also discuss how this investment may affect JRP's existing pet stores.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

JRP's board wishes to analyze whether the company should become a 20% owner of BeWild Foods (BWF), which is a relatively new company that produces high-quality raw pet food. By agreeing to the investment, BWF would be able to stock 10 additional JRP pet stores with BWF's highly popular food products.

Quantitative Analysis

The initial cost of this strategic investment equals $578,000. For this amount, JRP will acquire a 20% equity stake in BWF. BWF would use this amount to increase its production capacity, which would allow BWF to supply 15 JRP stores rather than just five (which is all they are currently able to do). Based on the information provided by Julia, the following incremental income analysis was completed for the increase in sales that JRP would generate by proceeding with this option:

	Current 5 Stores	Total w/ 15 Stores	Incremental Increase
Revenue	$225,000	$675,000	$450,000
Gross margin %	25%	30%	
COGS	168,750	472,500	303,750
Gross profit	$ 56,250	$202,500	$146,250

As can be seen, JRP would benefit from this investment, based solely on the increase in revenue that JRP would achieve through BWF's expansion of production. Based on the company's preferred parameters when comparing investments (a five-year time horizon and a rate of 4.9%), the following net present value analysis was completed:

Year	0	1	2	3	4	5
Revenue		450,000	450,000	450,000	450,000	450,000
COGS		303,750	303,750	303,750	303,750	303,750
Gross profit		146,250	146,250	146,250	146,250	146,250
Investment	$ (578,000)					
PV	$ 634,940					
NPV	$ 56,940					
Payback period	3.95					

Given the positive NPV, this investment meets the quantitative objectives of JRP's board. Also, this projection does not include any amount that JRP would earn from BWF as a result of owning 20% of BWF. Therefore, once that amount is factored in, the attractiveness of the option would improve even more. However, this outcome will only be possible if BWF is able to secure the additional resources that would be required in order to increase BWF's production capacity. At present, it is not certain whether BWF will be able to do this.

Qualitative Analysis

Advantages:

- BWF's products have quickly become popular with JRP's customers, and JRP regularly sells out of BWF's products. Not only will this investment in BWF allow BWF to expand its production capacity (and therefore provide inventory to more JRP stores), but JRP will also become entitled to a 20% portion of BWF's current and future earnings. Based on BWF's early success and the popularity of its products, its growth could be substantial.
- Because BWF's products need to be kept refrigerated and fresh, JRP's customers will have to go to a JRP location if they want to purchase BWF's products. This aligns well with the board's objective to have any investment made also benefit the company's existing business.
- BWF has a lot of potential to release more new and innovative products, which would benefit JRP in several ways.
- BWF's products appear to be well aligned with JRP's existing business, as well as the industry trend toward pet owners purchasing the most premium food products available on the market.
- As part of the agreement, BWF would agree to an exclusivity arrangement with JRP, whereby BWF's products would only be sold in JRP stores. This could offer JRP a significant advantage if BWF's products continue to increase in popularity.

- BWF plans to use a portion of the funds that JRP may invest to lease a facility that BWF needs in order to increase its production capacity. If JRP decides to invest in the manufacturing facility, it might be possible for JRP to provide this space. This is made more likely, given that JRP will have additional production capacity that it will not use, at least for the short term. This synergy could help both companies improve their performance.
- One of BWF's owners is an experienced pet nutritionist and the other is an experienced food chemist. This offers another potential synergy between the manufacturing investment option and this option because, at present, JRP currently lacks this expertise. It may be possible that these two owners of BWF could advise JRP on its food product formulations.

<u>Disadvantages:</u>

- Given the nature of BWF's products (100% raw and fresh), it would be a challenge to ship its product over even a short distance. This would negate using BWF's products as part of JRP's online ordering system, as customers would need to go into a JRP store to buy this product.
  - This option does not align very well with the option to expand JRP's e-commerce operations.
- As Abby pointed out, BWF is a new business. If JRP makes this investment, it is possible that BWF is not able to sustain its early success. In addition, JRP could end up spending an undue amount of time helping BWF further establish itself, at the expense of JRP's existing business.
- The success of this investment hinges on BWF's ability to expand its production capacity, and therefore BWF's ability to procure additional ingredients. This outcome is questionable, given the ongoing industry supply constraint and the fact that BWF is a new and small company that has likely not yet built strong relationships with its suppliers. These are the companies that are especially affected by the supply chain issues. Before making this investment, JRP should verify what plan BWF has for procuring more ingredients, and whether that plan seems reasonable, given the current market conditions.
  - This issue may be further exacerbated by the fact that BWF's products require very high-quality ingredients. Therefore, it could be even harder to find them.
- The profit margin offered by BWF's products is lower than that of other food manufacturers because of the cost of the high-quality ingredients that BWF uses to produce its food.
  - However, regardless of this, and as illustrated in the above quantitative analysis, this investment still appears to be attractive from a quantitative perspective.

Conclusion

Overall, the risk of this investment appears relatively low, assuming that BWF is able to acquire the additional ingredients that it needs, to produce more product. If so, this investment appears to align well with JRP's objectives and current business model. However, given the ongoing industry supply constraint, this could prove to be challenging or even impossible. Prior to making this investment, JRP should review BWF's plan for procuring this additional supply.

If JRP is able to gain confidence in BWF's ability to acquire more ingredients, this investment appears to be a strong one. In addition to the quantitative benefit, JRP may be able to derive other benefits from this relationship with BWF, especially if JRP decides to move forward with the option to expand into manufacturing (given BWF's apparent strength in this area).

Assessment Opportunity #5 (Strategic Alternative #4: Sign new pet supply agreement?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should sign a supply agreement for private-label pet supplies.

Quantitative analysis: The candidate should calculate the change in gross margin that JRP can expect from the supply agreement, and comment on the likelihood that JRP will be able to avoid the penalty associated with the minimum-purchase clause attached to the agreement.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of signing the private-label pet supply contract. The candidate should also discuss how this may affect JRP's existing pet stores.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

JRP's board would like to assess whether JRP should sign an agreement with Koda, which could alleviate the company's current challenge with obtaining pet supplies. This agreement would also allow JRP to provide JRP-branded pet supplies in its stores because Koda is offering a private-label product.

Quantitative Analysis

There is no upfront cost of entering this contract. This is a benefit to JRP as the company has a limited amount of available investment capital. Based on the information provided by Steve, the following comparison was made between JRP's current arrangement for procuring pet supplies, and the supply contract offered by Koda:

	2024 Actual	Projection with Koda's Supplies	Difference
Revenues	$ 13,500,000	$ 11,475,000	$ (2,025,000)
COGS	9,450,000	6,885,000	(2,565,000)
Gross profit	$ 4,050,000	$ 4,590,000	$ 540,000

If JRP sells the same quantity of annual pet supplies as it did in 2024, and all of those sales were products that Koda supplied to JRP, the company's income from pet supply sales would have increased by $540,000. However, these assumptions are far from certain, given that JRP's customers may not wish to buy these newly offered pet supplies (perhaps because they are of lower quality).

There is also a minimum purchase guarantee attached to the proposed purchase contract. Although information was not provided on the size of the penalty (something that needs to be obtained before JRP can adequately analyze the merit of the contract), JRP will want to ensure that the company avoids paying this penalty. Based on the information provided for 2024, the following analysis was completed, to assess the likelihood of JRP being able to meet the minimum purchase guarantee:

Projected purchases	$6,885,000	
Minimum purchase clause	6,500,000	
Variance	$ 385,000	Met

Assuming that, during each year of the purchase contract with Koda, JRP is able to sell as many pet supplies as it did in 2024, the minimum purchase guarantee would have been met. However, as the cushion between the projected purchases and the minimum purchase guarantee is quite small, if the quantity of pet supply sales goes down, JRP may be in violation of this aspect of the contract. As such, caution is warranted.

Qualitative Analysis

Advantages:

- With this purchase agreement, JRP would be able to stock its stores with JRP-branded pet supplies, which is something the company has never done before. This may help JRP build its brand, rather than selling the products from other brands.
- Given Koda's size, it has been less affected by the supply chain issues that have constrained the industry for the past several years. Therefore, signing this agreement would help to alleviate the company's current challenges with procuring an adequate amount of pet supplies inventory to satisfy the needs of its customers.
- The big advantage of this contract is that JRP would gain a reliable source of pet supplies, as Koda would easily be able to meet JRP's requirements. Signing this contract now would alleviate the issue that JRP is having with reliably stocking its shelves with pet supplies.
  - In addition, Koda says that it could provide JRP with much more product, above the minimum purchase guarantee. Therefore, this contract could become far more attractive if JRP decides to expand further into e-commerce as, with that option, JRP expects a significant growth in the company's sales. By having this supply contract, JRP may be able to alleviate the concern of being able to fill the online orders it receives for pet supplies.

There is no upfront cost of the contract. This is a benefit, given that JRP has limited investment dollars. Therefore, moving forward with this option will not limit JRP's ability to proceed with any of the other strategic options that are currently available to the company.

Disadvantages:

- As discussed above, the minimum purchase guarantee presents a risk to this purchase contract. To meet the guarantee, JRP would essentially need to cease selling pet supplies from any other supplier, to ensure that it does not violate it. This could be both unrealistic and unwise.
- As JRP would need to sell a significant amount of Koda's products to meet the minimum purchase guarantee, JRP would need to sever ties with its current suppliers of pet supplies. A key success factor of the industry is having strong relationships with suppliers. By proceeding with this purchase contract, JRP would need to violate this KSF.
- In addition, given the size of Koda, it may be difficult for JRP to build the kind of relationship that JRP would like. By moving forward with this option, JRP would depart from the way that the company has historically operated.

- The quality of Koda’s products is not as high as what JRP has historically offered. This could repel JRP’s customers, who have come to expect JRP to be a source of high-quality products. This could further reduce the likelihood that JRP would be able to meet the purchase contract’s minimum purchase guarantee.
- The trend toward purchasing high-quality pet supplies has continued. This supply contract is contrary to this trend, given that Koda’s products are of mid-range quality. JRP’s sales may not be as high as the company’s historical income from pet supplies because of the lower quality offered.
- These lesser-quality products will be branded as JRP products. This is a major risk to JRP’s brand because, at present, JRP is known as a company that provides only the best quality. The company should seriously consider whether it wants to attach its name to products of lesser quality.

Conclusion

There appear to be significant risks associated with signing this supply agreement. It is questionable whether JRP would be able to meet the minimum sales guarantee, and it is also a major risk to attach JRP’s brand name to a product that appears to be of lesser quality than JRP has historically been known for.

Although this contract would alleviate the current supply issue, the industry’s supply constraint will at some point be resolved, and when it does, JRP should be able to fully stock its customary high-quality product. The contract has an eight-year term, which locks JRP into this arrangement well past when industry experts think the supply chain issue will be resolved.

This contract may only become attractive if JRP decides to expand into e-commerce, because of the significant increase in projected sales that would result. But even then, this contract contains a significant number of risks that would need to be addressed before JRP agreed to it.

Assessment Opportunity #6 (Strategic Alternative #5: Invest in the development of a custom mobile application?)

The candidate is expected to complete both a quantitative and qualitative assessment of whether JRP should invest in the development of a custom mobile application.

Quantitative analysis: The candidate should calculate a projected NPV of the mobile application, based on the modules that they deem appropriate for JRP to include in the mobile app.

Qualitative analysis: The candidate should discuss the advantages and disadvantages of investing in a mobile application. The candidate should also discuss how this may affect JRP's existing pet stores.

Conclusion: The candidate should offer a conclusion that incorporates and logically follows from their quantitative and qualitative analyses.

JRP's board would like to analyze whether the company should choose to develop a custom mobile application that would allow JRP's customers to engage via mobile phone with JRP's business. This application would help JRP's business come more in line with its competitors, in terms of technology and the ability to purchase the company's products online.

Quantitative Analysis

The initial cost of investment in the mobile application will depend on the modules that JRP chooses to include. The following is a list of the available modules, and their corresponding costs and estimated revenues (as provided by Abby):

	Investment ($)	**Annual Maintenance ($)**	**Projected Increase in Gross Profit ($)**
Base platform cost	250,000	12,000	0
E-commerce module	236,000	95,000	432,000
Loyalty program and marketing module	114,000	4,000	87,000
Learning and information library module	74,000	3,000	23,000
Total	674,000	114,000	542,000

There are several combinations that JRP could choose from. For example, if the company decided to expand into manufacturing and become an equity owner of BWF, the company would have $522,000 in cash remaining for strategic investment, and therefore, would not have enough funds left for every module. Instead, JRP may wish to forgo the e-commerce module because that will not be a prime focus for the company going forward. In this scenario, and based on the company's preferred parameters when comparing investments (a five-year time horizon and a rate of 4.9%), the following net present value analysis was completed:

	Investment ($)	Increase in Gross Profit ($)	Annual Maintenance Expense ($)	Increase in Operating Income ($)
Base cost	250,000	0	12,000	(12,000)
Loyalty program and marketing module	114,000	87,000	4,000	83,000
Learning and information library module	74,000	23,000	3,000	20,000
	438,000	110,000	19,000	91,000
Investment	(438,000)			
PV of income	395,074			
NPV	(42,926)			
Payback period	4.81			

In this scenario, the mobile application appears to fit the board's quantitative objectives; however, the net present value of the investment in the app will only become positive in the sixth year.

In another example, if JRP chooses instead to focus on the e-commerce space by opening three fulfilment centres, the company would have $950,000 of cash available for strategic investment. In this case, the company could add the full suite of modules to the app's development. This would be helpful, as including the e-commerce module would be essential for the success of JRP's further venture into e-commerce. In this scenario, and based on the company's preferred parameters when comparing investments (a five-year time horizon and a rate of 4.9%), the following net present value analysis was completed:

	Investment ($)	Increase in Gross Profit ($)	Annual Maintenance Expense ($)	Increase in Operating Income ($)
Base cost	250,000	0	12,000	(12,000)
E-commerce module	236,000	432,000	95,000	337,000
Loyalty program and marketing module	114,000	87,000	4,000	83,000
Learning and information library module	74,000	23,000	3,000	20,000
	674,000	542,000	114,000	428,000
Investment	(674,000)			
PV of income	1,858,150			
NPV	1,184,150			
Payback period	1.57			

In this scenario, the investment in the mobile application with an e-commerce focus is even more attractive when compared with the manufacturing scenario discussed above. Therefore, based on the information provided, it would appear that moving forward with the investment in this custom mobile application appears to be attractive from a quantitative perspective. However, this analysis also assumes that the e-commerce module will not cannibalize sales that would have otherwise been made through JRP's website or the company's existing stores. This assumption may not be completely realistic, as some cannibalization is likely to occur.

Qualitative Analysis

Advantages:

- Online purchasing is especially prominent with the younger generations, who tend to use mobile phones to make online purchases. By investing in the development of this mobile application, and specifically the e-commerce module, JRP will align itself with this industry trend. This will likely increase the satisfaction of these customers, and could lead JRP to attract new customers who prefer to purchase products with their mobile devices.
- The pandemic has resulted in more customers preferring to make their purchases online. By investing in this mobile application, JRP will provide an easier way for customers to do this. Therefore, investing here will help JRP align itself with an important market trend.
- Abby used to work for PSC and has attested to the quality of PSC's products. Therefore, JRP's board can be more confident in the quality and success of the investment.
- PSC offers a suite of modules that JRP can choose from. This will allow JRP to contain costs and choose only the modules that fit with the company's strategic direction.
- The list of modules included in the information provided by Abby is only a partial list. It is possible that, over time, as JRP becomes more comfortable operating in the online world, more features could be added to the mobile application, to improve the experience for JRP's customers.

Disadvantages:

- The introduction of this mobile application could drive customers away from visiting JRP's physical locations because they could use the application to purchase products instead. This does not align with the objective for investments to help stop the decline of the company's existing stores.
  - However, it should also be pointed out that, as time goes on, it is likely that more and more customers will prefer to purchase their products online, so if JRP does not invest in upgrading its current system, it could be that the company loses customers entirely.
- Julia is concerned that JRP will not be able to provide its high-quality customer service through this mobile application. As exceptional customer service is something that sets JRP apart from its competitors, the company may lose this advantage, as more of its customers decide to use the mobile application rather than visit a JRP location.

   - However, as Abby pointed out, it may be possible to bring JRP's exceptional customer service into the online world. Looking at the suite of modules that is currently available, JRP may be able to do this by offering the learning and information library module, where JRP could provide many different forms of advice and information, which could set it apart from other companies that do not offer this kind of service.
- For the learning and information library module, JRP would be responsible for making the content that would come with the application. This could be time-consuming and ineffective, as JRP has no experience in this area.
   - However, this also offers JRP the opportunity to use its vast knowledge of pet products to create content that users would find valuable.

<u>Which modules to choose</u>

Which modules JRP chooses to include in the company's initial mobile application will depend on the other decisions that JRP makes at this time. This is especially true for the e-commerce module because, if JRP decides to go with the manufacturing route, the company would not have enough money left over to include this module, and it is unlikely to need this module as part of its mobile application, given that the company will not be focused on e-commerce. On the other hand, this module would become more affordable and attractive if JRP decided to expand further into the e-commerce world by purchasing and operating the three fulfilment centres.

Both of the other modules—the loyalty program and marketing module, and the learning and information library module—seem like good choices, regardless of which route JRP chooses. This is because both of these modules align with JRP's current operations as well as the company's mission, vision, and core values. This could be a way to bring JRP's exceptional customer service online. To achieve this, JRP may want to forgo charging a subscription fee for the learning and information library, to ensure that all customers have access to JRP's knowledge base. If JRP decides this, the economics of the investment would change, so JRP would need to rerun the above analysis with a new set of estimates.

Conclusion

The investment in the mobile application appears to be a good idea. It will satisfy JRP's customers' requests and help JRP become aligned with the trend of customers making more of their purchases online. JRP should first decide whether the company will proceed with either the manufacturing or the e-commerce option before deciding which modules to include in its mobile application's development.

Summative Assessment #3 – Conclude and Advise

For Summative Assessment #3, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate provided reasonable conclusions for each major issue.

Unsure – The candidate attempted to provide reasonable conclusions for each major issue.

No – The candidate clearly did not provide reasonable conclusions for each major issue.

Enabling Competencies
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.2 Articulates limitations to recommendations
6.3.3 Applies decision criteria to choose among viable alternatives
6.3.4 Ensures that decision criteria do not conflict with professional ethics and values

The candidate is expected to provide a logical conclusion that is consistent with their analysis and integrated with an overall recommendation of whether JRP should invest in a manufacturing facility, expand into e-commerce, enter a partnership with a premium pet food supplier, enter a purchase agreement for private-label pet supplies, or develop a customized mobile application. The candidate should also discuss how JRP could approach financing the recommended approach.

The candidate should draw logical conclusions and make a recommendation on the strategic direction that JRP should take. The candidate's analysis should integrate the analysis for all five major strategic opportunities into a coherent overall strategy. The recommendations should be strategic in nature and display good professional judgement and logic, recognizing the interconnected influence of each option. Suggesting that further information is required is acceptable where justified and consistent with the analysis.

Recommendations on Specific Issues

The first major decision that must be made is whether JRP should invest in the manufacturing facility or the three online ordering fulfilment centers. Because JRP only has $5 million to invest and each one of these options costs roughly $4 million, the board can only choose one of these options. This choice will affect the relative strengths and weaknesses of choosing the other options.

Invest in manufacturing or e-commerce?

Both the manufacturing and the e-commerce expansion options meet the board's quantitative objectives; however, the manufacturing route appears to do so more effectively. In addition, the manufacturing route provides JRP with more future upside. This is because, when the global supply chain of goods and products returns to its pre-pandemic state, JRP should be able to utilize more of the manufacturing facility's capacity. Improvements in the ongoing industry supply constraint would also help the performance of the e-commerce expansion but not to the same degree as the manufacturing facility.

In addition, the manufacturing route may be more beneficial in helping to stop the decline of JRP's existing locations, given that JRP would begin to offer a new, in-demand product that the company could offer at a discount if it were purchased in stores. This could drive more customers to JRP locations. On the other hand, as the e-commerce expansion is expected to cannibalize some of JRP's in-store purchases, this goes against one of the board's primary objectives.

Therefore, if JRP can satisfy itself that it can effectively navigate the regulations involved with manufacturing pet food and that the company is able to formulate a product and obtain all the ingredients that it would need, the manufacturing route appears to be the more attractive option.

Purchase equity in BWF?

Given the recommendation above to expand into manufacturing, it is also recommended that JRP invest in BWF (after JRP conducts the necessary due diligence procedures). There are a couple of potential synergies between JRP's new manufacturing project and BWF, such as BWF's experience with product formulations. If JRP can gain confidence that these two companies would work well together, this option appears to be attractive.

Sign the supply agreement with Koda?

Although this option would help alleviate the immediate challenges that JRP is facing with procuring an adequate inventory of pet supplies, this supply agreement appears to be unattractive. The term is long and would be costly to break, and the quality of these products is lower than what JRP has historically offered. Moreover, the products would carry the JRP brand, which could risk tarnishing the company's reputation as a purveyor of the highest-quality products. In addition, although JRP is faced with supply chain challenges, these challenges will eventually abate, and when they do, provided JRP turns this supply agreement down, the company's strong relationships with its existing subscribers will be left intact. It is recommended that this offer is turned down.

Invest in the custom mobile application?

After the investments into manufacturing and BWF, the company will have $522,000 in investment capital left for strategic investment; therefore, the company would not have enough funds remaining to develop every module. Instead, the company may wish to forgo the e-commerce module because that will not be a prime focus for the company going forward. However, it appears that investing in the application with the loyalty program and learning modules would be both profitable and attractive, when considering JRP's mission, vision, values, and objectives. Given that JRP clearly needs to do something about its outdated online presence, it is recommended that JRP move forward with the investment in the mobile application (but forgo including the e-commerce module).

Overall Recommendation

By following the recommendations above, JRP would expand its business into manufacturing, which appears attractive now, and could become increasingly attractive as time goes on. This is because the industry's ongoing supply constraint will eventually lift and JRP should be able to fully utilize the capacity at the manufacturing facility, if the company is able to develop and produce high-quality pet foods. That outcome may be made more likely by becoming an equity investor in BWF, given the synergies discussed above.

After these investment recommendations, JRP will be left with $84,000 in investment capital:

	($)
Current available investment capital	5,000,000
AO2 Manufacturing facility	(3,900,000)
AO3 E-commerce expansion	Do not proceed
AO4 Equity in BWF	(578,000)
AO5 Pet supplies purchase contract	Do not proceed
AO6 Mobile application investment	(438,000)
Total cash remaining	84,000

Summative Assessment #4 – Communication Hurdle

For Summative Assessment #4, the candidate must be assessed for reasonableness of attempt:

Yes – The candidate adequately communicated their response.

No – The candidate clearly did not adequately communicate their response.

Insufficient communication in a candidate's response would generally include some of the following:

- The reader needs to re-read sections several times in order to gain an understanding.
- It is not clear what point the candidate is trying to make.
- The quantitative analysis does not make sense because of a lack of labelling or illogical ordering.
- There is an excessive amount of spelling and grammatical errors.
- Unprofessional language is used.

Summative Assessment #5 – Overall Assessment

For Summative Assessment #5, the candidate must be assessed in one of the following, based on their overall performance:

Clear Pass – Overall, the candidate provided an adequate response, clearly meeting the minimum standards for each of the summative assessments above.

Marginal Pass – Overall, the candidate provided an adequate response, with some errors or areas of omission, but the underlying key concepts were there.

Marginal Fail – Overall, the candidate provided an attempt at a response, one that contained several errors or where the analysis was incomplete.

Clear Fail – Overall, the candidate did not provide an adequate response; the response was deficient in multiple areas.

To be assessed a Pass, the candidate is expected to perform adequately in all the summative assessments and demonstrate that, overall, they addressed the issues of all of the shareholders.

In making their overall assessment, markers considered the following:

1. Did the candidate step back and see the bigger picture, and then address the broader issues identified?
2. Did the candidate prioritize the issues by discussing the major and minor issues in appropriate depth?
3. Did the candidate use both quantitative and qualitative information to support their discussions and conclusions?
4. Did the candidate use the appropriate tools to perform quantitative analysis?
5. Did the candidate use sufficient case facts (current case and Capstone 1 case) about the external and internal environment to support their discussions?
6. Did the candidate communicate their ideas clearly, integrating and synthesizing the information?

SAMPLE RESPONSE – JRP VERSION 2

Below is an actual passing candidate response.

Memo

To: JRP Board of Directors

From: CPA, QSC

Re: Analysis of New Opportunities for JRP

Situational Analysis

There has been no change to the company's mission, vision, and core values.

Mission

- *We are committed to meeting all the needs of pet owners and pets by providing superior products that will keep pets healthy and happy throughout their lives. We want to give our customers the most captivating shopping experience that will ensure life-long relationships and loyalty. We want to be relevant not only to pets and pet parents, but also to our communities by supporting local animal-related charities.*

Vision

- *To create a better everyday life for pet owners and pets by providing the highest quality of healthy, innovative, fun, and safe products for cats and dogs in stores that are staffed by pet-loving and knowledgeable people.*

Core Values

1. Have a positive impact on our pets and create lasting relationships

2. Sell only the highest-quality products that will foster healthy and happy pets.

3. Provide pet parents with knowledgeable advice on products to help them make the right decisions for their pets.

4. Value, develop, and reward contributions, service, and skills of our employees

5. Act always with the highest ethical standard, integrity, and honesty.

6. Care about, be involved in, and give back to our local communities.

Financing

- JRP currently has $5 million to invest, with no other additional investment capital available nor does JRP have the desire to access any further debt financing.

New Strategic Plan

- Increase the company's net income

- To prevent the continued decline of the company's existing pet stores

Key Success Factors

- Being located in high-traffic and visible areas to maximize traffic

- Having attractive and eye-catching product presentation and displays in the store that promote buying

- Offering a wide range of products at various price and quality levels

- Having experienced and knowledgeable staff to advice customers

- Consistent and good-quality products for ongoing customer satisfaction and customer loyalty

- Investment in good technology and information systems

Previous Objectives

- Decrease percentage of revenue from pet supplies sold to less than 15% of total revenue by 2026

- Increase operating profit margin to at least 7% by 2026

- Offer at least two additional types of pet-related services by 2026

- Increase the number of loyalty reward customer by 15% in 2026.

Strength

- The new shareholder, Abby Clarke, has experience in the e-commerce industry through her successful career in e-commerce logistics, which will help JRP make increased sales through their website given it has become increasing popular with some of JRP's customers.

- The trend to purchasing premium, high-quality pet food and supplies has continued to increase, given fresh and frozen pet food is still the most popular, JRP will be able to retain their customers by continuing to be a leader in providing premium, high-quality fresh and frozen food.

Weakness

- JRP's online website is very outdated, which makes it difficult to increase online sales, which results in JRP losing customers who prefer online sales to competitors in the market.

- The board appears to have a hard time agreeing on the direction the company should be taken towards in terms of the new opportunity available as they prioritize different values, which may make it difficult for the board to come to a unified conclusion.

Opportunity

- There are only a few dry dog foods on the market that offer exceptional quality and nutrition while the demand for dry foods is increasing, JRP can take advantage of this growth through manufacturing dry food, since dry food is the most purchased type of dog food, which will allow JRP to increase its net income and attract new customers.

- There appears to be increased demand for raw foods, which would help JRP increase the variety of foods they offer customers if they take advantage of this opportunity.

- There appear to be increased sales through e-commerce amongst the younger generations, who tend to use their mobile phones to make online purchases, thus by expanding JRP's online presents, they will be able to attract new customers within the younger demographic.

Threat

- There appears to be increased competition in the industry, which means JRP is likely to lose customers to competitors easily if the customers are not satisfied with the service JRP is currently providing.

- There appears to be ongoing supply chain issues within the industry from the start of the pandemic, which has resulted in a decrease in net income year over year for JRP and loss in supplies if JRP does not maintain a relationship with customers.

Strategic Opportunity Analysis

Assumption: All quantitative analysis are prepared based on the assumption that the supply chain issue will be fixed by the start of year 3 within the 5 years of analysis the board has requested, thus year 1 and 2 account for supply chain issues whereas years 3, 4, and 5 do not include the supply chain issue. Please refer to excel - Sheet 1 for all quantitative calculations that relate to the strategic opportunity analysis.

<u>Manufacture JRP-branded Dog Food</u>

Quantitative Analysis

Per Exhibit 1, this investment opportunity would provide a positive net income every year, thus the upfront cost of $3.9 million will likely be recovered by the end of year 3, thus in terms of investments analysis over 5 years, JRP will be able to fully profit from this investment given it provides a positive NPV. From a quantitative perspective, I recommend proceeding with the manufacturing of dog food given this will increase the overall net income for JRP, which aligns with the new strategic direction.

Qualitative Analysis

Advantages

- Given that there are only a few dry dog foods on the market that offer exceptional quality and nutrition while the demand for dry foods is increasing, JRP will be able to take advantage of this demand growth through this investment opportunity.

- Although there appears to be a supply chain issue within the industry, there already appears to be a company that is ready to sell high-quality ingredients to JRP, which helps JRP mitigate the risk regarding the supply chain issue threat within this investment opportunity.

- By using only high-quality ingredients to process the dry food, this aligns with JRP's value of "Sell only the highest-quality products that will foster healthy and happy pets."

- This opportunity will allow JRP to increase the variety of products they offer to customers, which will aid in being successful in the industry given a key success factor of the industry includes "Offering a wide range of products at various price and quality levels"

Disadvantages

- Although JRP is able to manufacture up to 1.8 million kg of dry food, the shortage in ingredients only allows of JRP to manufacture 1.08 kg, thus not allowing JRP to maximize the use of the 60% portion allocated to manufacturing, and is difficult to obtain additional supplies from elsewhere given the current supplychain issue.

- JRP currently has no experience with manufacturing or process of developing product recipes, which could result in JRP not being able to provide high-standard products within their recipes, thus could result in a health issue for pets, which could result in loss of customers.

- This does not align with JRP's current product offering of providing fresh and frozen food, thus not catered towards JRP's current demographic.

Conclusion

Based on my analysis, I recommend JRP proceeds with this opportunity given that it provides a net income, which will increase JRP's overall net income, and aligns with JRP's mission and values while allowing JRP to take advantage of the demand for dry pet foods within the industry.

<u>Expand E-commerce Operations</u>

Quantitative Analysis

Per Exhibit 2, this investment opportunity would provide a positive net income every year, thus the upfront cost of $4.05 million will likely be recovered by the end of year 4, thus in terms of investments analysis over 5 years, JRP will be able to fully profit from this investment given it provides a positive NPV. This analysis also includes the deduction of 15% of sales that would've also been generated through stores without the online upgrades to show the full impact of only the online store. From a quantitative perspective, I recommend proceeding with the upgrade to the e-commerce given this will increase the overall net income for JRP, which aligns with the new strategic direction.

Qualitative Analysis

Advantages

- With this opportunity, it allows for JRP to fulfil orders through the new fulfilment centres, which decreased the delivery time from 5 days to 3 days, which will ensure the fresh and frozen food don't go bad, which will allow for JRP to be successful within the industry given a key success factor includes "Consistent and good-quality products for ongoing customer satisfaction and customer loyalty"

- Currently, store employees are spending too much time packaging and shipping orders rather than helping in-store customers, thus this opportunity aligns with JRP's value of "Provide pet parents with knowledgeable advice on products to help them make the right decisions for their pets."

- Given Abby's expertise in e-commerce, JRP will be able to use Abby's knowledge to their advantage, which will help attract new customers who prefer to purchase online.

Disadvantages

- This option reduces the amount of sales made in store by 15%, which does not align with JRP's vision of "*To create a better everyday life for pet owners and pets by providing the highest quality of healthy, innovative, fun, and safe products for cats and dogs* ***in stores*** *that are staffed by pet-loving and knowledgeable people."*

- This investment is not aligned with JRP's new strategic plan of "*To prevent the continued decline of the company's existing pet stores*" given that the decrease in in-store sales will likely lead to more decline of company's existing pet stores.

- Competition within the industry is with the biggest national chains, thus this would require JRP to lower prices for products, which will result in a lower net income for JRP, not aligning with new strategic plan.

- JRP's reputation is build on superior customer service, which resulted in still maintaining a strong demand for in-store purchases amongst JRP's customers, this opportunity makes it difficult to continued to offer customers the same captivating experience as in-store through online, which does not align with JRP's mission of "*We are committed to meeting all the needs of pet owners and pets by providing superior products that will keep pets healthy and happy throughout their lives. We want to give our customers the most captivating shopping experience that will ensure life-long relationships and loyalty. We want to be relevant not only to pets and pet parents, but also to our communities by supporting local animal-related charities."*

Conclusion

Although this opportunity provides a positive net income over the 5 year period, I recommend JRP does not proceed with this opportunity given this does not align with JRP's mission, vision, or new strategic plan.

Purchase Equity in BeWild Foods

Quantitative Analysis

Per Exhibit 3, it is based on the assumption that $225,000 revenue from BWF products in 2024 was for all 5 stores they supply for, thus the additional 10 stores revenue was calculated as (225,000 / 5) x 15 stores. Based on the analysis, investing $578,000 in BWF will increase gross margin from currently 56,250 to 202,500 going forward. This investment opportunity would provide a positive net income every year, thus in terms of investments analysis over 5 years, JRP will be able to fully profit from this investment given it provides a positive. From a quantitative perspective, I recommend proceeding with the purchase of BWF equity given this will increase the overall net income for JRP, which aligns with the new strategic direction.

Qualitative Analysis

Advantages

- It is evident that BWF products have become a favourite of JRP customers as JRP regularly sells out of their products which are premium raw food, which aligns with JRP's mission, vision, and values of provided healthy high-quality products for pets.

- Raw food is a product that is currently in high demand, this investment opportunity allows BWF to only sell its products through JRP, which will provide JRP with a competitive advantage through consistent and good-quality products for ongoing customer satisfaction and customer loyalty that competitors do not offer mitigating the threat of competitors.

- BWF products need to be kept refrigerated and fresh, thus they can only be offered in-store, which will draw more customers to JRP locations, which aligns with providing knowledgeable staff/services in-store, and with JRP's new strategic plan to prevent decline of company's stores.

Disadvantages

- This investment option does not allow JRP to take advantage of the opportunities available through e-commerce given that shipping the fresh, raw food products is difficult, thus they will not be able to attract customers who are looking to purchase raw food online.

- The ingredients costs are very high, thus the profit margin is lower than other food manufacturers, which does not align with JRP's strategic plan to increase net income, thus as an investor in BWF, there would not be much return from the company itself.

- They are a small and relatively new manufacturer, thus it may be difficult for them do run their business successfully given that there is a supply constraint in the industry where smaller retailers such as BWF have struggled more than larger suppliers due to lack of relationships with suppliers.

Conclusion

Based on my analysis, I recommend JRP proceeds with this investment opportunity given it provides a positive NPV, aligns with JRP's mission, vision, values, and new strategic plan through the increased sales that will generated by investing in BWF.

<u>Koda Co.'s Agreement</u>

Quantitative Analysis

Per Exhibit 4, switching to Koda does not appear to be reasonable given that the negative margin after the minimum required purchase of $6.5 million of supplies from Koda. I do not recommend proceed with this option as it does not help increase net income as per the new strategic plan objective.

Qualitative Analysis

Advantages

- Koda is a respected company that has been around for a while, thus they have been affected by the supply chain constraint less compared to the rest of the industry, thus this option would help JRP mitigate the risk related to supply chain.

- This opportunity will increase brand recognition for JRP, which will help attract new customers, and retain loyal customers, which aligns with JRP's mission of "*ensure life-long relationships and loyalty."*

- This opportunity will help JRP out of the supply chain constraint, which allows JRP to fulfil all commitments at full capacity.

Disadvantages

- JRP will likely-need to sever the long-standing relationships that JRP has with their current supplier, which makes it difficult to maintain relationships if JRP decides to terminate the contract with Koda given it is difficult to maintain a relationship with a supplier the size of Koda.
- Koda's products are standard, mid-range quality, which does not align with JRP's vision of "*To create a better everyday life for pet owners and pets by providing the **highest quality of** healthy, innovative, fun, and safe products for cats and dogs in stores that are staffed by pet-loving and knowledgeable people.*" or values of "sell only the highest-quality products that will foster healthy and happy pets."
- JRP's target audience are those that are looking for premium products, thus by switching to KOda, they will likely lose their customers to competitors given the industry is high in competition.

Conclusion

Based on my analysis, I recommend JRP does not proceed with this option given the required $6.5 million purchase of products with penalty if they fail to do so, and given this does not align with JRP's vision, and values.

<u>Pro Software Consultants App Development</u>

Quantitative Analysis

Per Exhibit 5, the E-commerce app development option is the best alongside Loyalty programs. Although first year would result in a loss with the app regardless of the option chosen, given the upfront cost of $250,000, I still recommend proceeding with the app as it will increase net income per the new strategic plan from year 2 onwards with the highest increase through the e-commerce development app and loyalty programs.

Qualitatitve Analysis

Advantages

- This allows for JRP to drive up its online sales, which will allow for JRP to attract the younger audience who are always on their phones.

- This app will help improve loyalty programs, and provide valuable information to customers which aligns with JRP's value of "Provide pet parents with knowledgeable advice on products to help them make the right decisions for their pets."
- This will help upgrade technology which will help with JRP to be successful within the industry given that a key success factor of the industry is "Investment in good technology and information systems"

Disadvantages

- This does not align with the new strategic plan to prevent decline of company stores given that encouraged people to want to shop through the app.
- This does not align with JRP's branding of providing captivating experiences in person to adhere to their target demographic.
- This does not allow JRP to take advantage of the demand for in-person experience which is high among JRP customers, which will drive these customers away as they may feel like they are not valued.

Conclusion

Based on my analysis, I recommend JRP pursues this investment by selecting the E-commerce and loyalty program package given the increased net income it will provide from year 2 onwards and given it helps attract younger demographic, aligns with JRP's values and helps be successful within the industry with the new technology change, which still being able to provide knowledge information to customers in person by not implementing the learning and library package.

Overall Conclusion

JRP currently has $5 million to invest, with no other additional investment capital available nor does JRP have the desire to access any further debt financing, thus my recommendation will be based having this financial constraint in mind.

I recommend JRP to proceed with Manufacturing JRP-branded dry food, as this aligns with the new strategic plan JRP wants to implement, aligns with JRP's mission and values while allowing JRP to take advantage of the demand for dry pet foods within the industry, allowing JRP to increase the variety of foods they sell.

I then recommend JRP to proceed with purchasing equity in BeWild Foods, as this aligns with the new strategic plan JRP wants to implement, aligns with JRP's mission, vision, values, and allows JRP to take advantage of the increased demand for raw foods.

I then recommend JRP to proceed with developing the app, but only select the e-commerce package for now, and wait to implement the loyalty package until additional funds are available because this aligns with JRP's values and helps be successful within the industry with the new technology change, while providing an increased net income all while attracting the younger demographic.

This would result in a total of 4,964,000 (3900000+578000+250000+236000) being used from the $5 million available for investing, which results in not enough funds for the loyalty package, thus the recommendation to wait on that package.

I do not recommend JRP to proceed with the expansion of the e-commerce operations or the Koda agreement because this does not align with JRP's mission, vision, or new strategic plan, which can result in loss of customers to competitors given that the competition is high for this industry and the app implementation is a small step towards the e-commerce expansion, which still encouraging majority of sales to be through in-store sales.

The board appears to be having some difficulty regarding the direction of the company given that the new strategic plan is to prevent decrease in company stores, yet some members believe it is good to be up with the trends by moving towards e-commerce. This may make it difficult to make a conclusive decision as a board, thus I recommend all 5 board members have a thorough discussion on what they expect the company to look like going froward to ensure everyone agrees with the strategic plan of JRP.

Exhibit 1 - Manufacture JRP-branded Dog Food

Purpose: To determine the profitability of manufacturing JRP-branded dog food.

Assupmtion: Supply Chain issue will be solved by 3 years avarage between all experts of 2-4 years.

Supply Chain Constraint				**No Supply Chain Constraint**		
Total Production	1,080,000	kilograms	[1]	1,800,000	kilograms	[1]
Per Kilogram Price	$5.90		[2]	$5.90		[2]

	1	2	3	4	5	Notes
Revenue	6,372,000.00	6,372,000.00	10,620,000.00	10,620,000.00	10,620,000.00	[1] x [2]
COGS	- 2,548,800.00	- 2,548,800.00	- 4,248,000.00	- 4,248,000.00	- 4,248,000.00	40% of revenue
Gross Margin	3,823,200.00	3,823,200.00	6,372,000.00	6,372,000.00	6,372,000.00	60% of revenue
Annual Fixed OH	- 2,850,000.00	- 2,850,000.00	- 2,850,000.00	- 2,850,000.00	- 2,850,000.00	
Net Income	**973,200.00**	**973,200.00**	**3,522,000.00**	**3,522,000.00**	**3,522,000.00**	
Discount Factor	**0.95**	**0.91**	**0.87**	**0.83**	**0.79**	
Discounted Cash Flow	**927,740.71**	**884,404.87**	**3,051,145.28**	**2,908,622.76**	**2,772,757.64**	
NPV	**6,644,671.26**					
Opening Balance	- 3,900,000.00	- 2,926,800.00	- 1,953,600.00	1,568,400.00	5,090,400.00	
Net Income	973,200.00	973,200.00	3,522,000.00	3,522,000.00	3,522,000.00	
Closing balance	- 2,926,800.00	- 1,953,600.00	1,568,400.00	5,090,400.00	8,612,400.00	

Conclusion: Based on the analysis, this would provide a positive net income every year for the next 5 years and a positive NPV.

Exhibit 2 - Expand E-commerce operations

Purpose: To determine change in net income by increasing online presents.

Assupmtion: Supply Chain issue will be solved by 3 years avarage between all experts of 2-4 years.

	1	2	3	4	5	Notes
Revenue	6,023,200.00	6,023,200.00	7,529,000.00	7,529,000.00	7,529,000.00	80% of 7,529,000 for first 2 years
COGS	- 3,312,760.00	- 3,312,760.00	- 4,140,950.00	- 4,140,950.00	- 4,140,950.00	55% of total revenue
Gross Margin	2,710,440.00	2,710,440.00	3,388,050.00	3,388,050.00	3,388,050.00	45% of total revenue
Annual Fixed OH	- 1,350,000.00	- 1,350,000.00	- 1,350,000.00	- 1,350,000.00	- 1,350,000.00	
Less 15% of GM	- 406,566.00	- 406,566.00	- 508,207.50	- 508,207.50	- 508,207.50	GM lost from store sales
Net Income	**953,874.00**	**953,874.00**	**1,529,842.50**	**1,529,842.50**	**1,529,842.50**	
Discount Factor	**0.95**	**0.91**	**0.87**	**0.83**	**0.79**	
Discounted Cash Flow	**909,317.45**	**866,842.18**	**1,325,318.49**	**1,263,411.34**	**1,204,395.93**	
NPV	**1,519,285.38**					
Opening Balance	- 4,050,000.00	- 3,096,126.00	- 2,142,252.00	- 612,409.50	917,433.00	
Net Income	953,874.00	953,874.00	1,529,842.50	1,529,842.50	1,529,842.50	
Closing balance	- 3,096,126.00	- 2,142,252.00	- 612,409.50	917,433.00	2,447,275.50	

Conclusion: Based on the analysis, this would provide a positive net income every year for the next 5 years and a positive NPV.

Exhibit 3 - Purchase Equity in Bewild Foods
Purpose: To determine whether to invest in BeWild Foods or not.

	2024	1	2	3	4	5
Revenue	225,000.00	675,000.00	675,000.00	675,000.00	675,000.00	675,000.00
COGS	- 168,750.00	- 472,500.00	- 472,500.00	- 472,500.00	- 472,500.00	- 472,500.00
Gross Margin	56,250.00	202,500.00	202,500.00	202,500.00	202,500.00	202,500.00
Net Income		**202,500.00**	**202,500.00**	**202,500.00**	**202,500.00**	**202,500.00**
Discount Factor		**0.95**	**0.91**	**0.87**	**0.83**	**0.79**
Discounted Cash Flow		**193,040.99**	**184,023.82**	**175,427.86**	**167,233.42**	**159,421.76**
NPV		**879,147.85**				
Opening Balance		- 578,000.00	- 375,500.00	- 173,000.00	29,500.00	232,000.00
Net Income		202,500.00	202,500.00	202,500.00	202,500.00	202,500.00
Closing balance		- 375,500.00	- 173,000.00	29,500.00	232,000.00	434,500.00

Conclusion: Based on the analysis, investing in BWF will increase Gross Margin to 202,500 from current 56, 250 and provides a positive NPV.

Exhibit 4 - Koda Co.'s Agreement

Purpose: To determine whether to replace pet supplies with Koda products only.

									Notes
Pet Supplies	1	2	3	4	5	6	7	8	
Revenue	13,500,000.00	13,500,000.00	13,500,000.00	13,500,000.00	13,500,000.00	13,500,000.00	13,500,000.00	13,500,000.00	
COGS	- 9,450,000.00	- 9,450,000.00	- 9,450,000.00	- 9,450,000.00	- 9,450,000.00	- 9,450,000.00	- 9,450,000.00	- 9,450,000.00	70% of revenue
Gross Margin	4,050,000.00	4,050,000.00	4,050,000.00	4,050,000.00	4,050,000.00	4,050,000.00	4,050,000.00	4,050,000.00	30% of revenue
Koda									
Revenue	11,475,000.00	11,475,000.00	11,475,000.00	11,475,000.00	11,475,000.00	11,475,000.00	11,475,000.00	11,475,000.00	Drop of 15%
COGS	- 6,885,000.00	- 6,885,000.00	- 6,885,000.00	- 6,885,000.00	- 6,885,000.00	- 6,885,000.00	- 6,885,000.00	- 6,885,000.00	60% of revenue
Gross Margin	4,590,000.00	4,590,000.00	4,590,000.00	4,590,000.00	4,590,000.00	4,590,000.00	4,590,000.00	4,590,000.00	40% of revenue
Required Purchase	- 6,500,000.00	- 6,500,000.00	- 6,500,000.00	- 6,500,000.00	- 6,500,000.00	- 6,500,000.00	- 6,500,000.00	- 6,500,000.00	
Operating Margin	- 1,910,000.00	- 1,910,000.00	- 1,910,000.00	- 1,910,000.00	- 1,910,000.00	- 1,910,000.00	- 1,910,000.00	- 1,910,000.00	

Conclusion: Based on the analysis, selling only Koda results in negative margin given that a mimimum requirement of $6.5 million of supply purchase.

Exhibit 5 - Pro Software Consultants App Development

Purpose: To determine whether which app customization best suits JRP's needs.

		1		2 and thereafter
E-commerce GM		432,000.00		432,000.00
Investment	-	236,000.00		
Maintenance	-	95,000.00	-	95,000.00
Operating Margin		101,000.00		337,000.00
Loyalty Program GM		87,000.00		87,000.00
Investment	-	114,000.00		
Maintenance	-	4,000.00	-	4,000.00
Operating Margin	-	31,000.00		83,000.00
Information Library GM		23,000.00		23,000.00
Investment	-	74,000.00		
Maintenance	-	3,000.00	-	3,000.00
Operating Margin	-	54,000.00		20,000.00

Cost of $250,000 is a sunk cost given it will take place for all options.

Conclusion: Based on the analysis the E-commerce approach is the most appropriate option for JRP.

APPENDIX G

RESULTS BY SUMMATIVE ASSESSMENT OPPORTUNITY FOR DAY 1 VERSION 1 AND VERSION 2

Results by Summative Assessment Opportunity

Marking Results – J.R. Pets Inc. Version 1

Summative Assessment	Papers	Did not meet standard[1]	Marginal[1]	Yes, met standard
Situational Analysis	4923	1.08%	4.10%	94.82%
Analysis	4923	0.98%	17.73%	81.29%
Conclude and Advise	4923	4.14%	27.22%	68.64%
Communication	4923	0.00%	0.12%	99.88%

Marking Results – J.R. Pets Inc. Version 2

Summative Assessment	Papers	Did not meet standard[1]	Marginal[1]	Yes, met standard
Situational Analysis	606	0.99%	3.63%	95.38%
Analysis	606	3.80%	31.52%	64.69%
Conclude and Advise	606	3.30%	54.62%	42.08%
Communication	606	0.00%	0.17%	99.83%

[1] Clearly failing papers (i.e., did not meet the standard) were marked twice. All marginally failing or marginally passing papers were marked a second time to determine which ones met the passing standard. A selection of papers that were close to the margin were also looked at by third marker. The clear pass papers were marked only once, however, they were audited.

The BOE ensures that Version 2 difficulties are equated with Version 1. Any differences in the above statistics are attributable to the mix of candidates writing, which varies with each version.

APPENDIX H

BOARD OF EXAMINERS' COMMENTS ON DAY 1 SIMULATIONS VERSION 1 AND VERSION 2

BOARD OF EXAMINERS' COMMENTS ON DAY 1 (JRP VERSION 1)

Paper/Simulation: **Day 1 – Linked Simulation, JRP V1 (on September 2023 CFE)**

Estimated time to complete: 240 minutes

Simulation difficulty: Average

Competency Map coverage: N/A; Enabling Skills

Examiners' comments by Summative Assessment Opportunity (SO)

SO#1 (Situational Analysis)

Candidates were expected to highlight the factors, both internal and external to JRP, that could have influenced the strategic decisions presented in the simulation. From the strategic options available to the company in Capstone 1, JRP had chosen to move forward with the option to invest in the deluxe dog camp, Bonheur des Animaux au Lac Agathe Camp (BALA). Given the strong performance of Gord and Irene, this investment had proven to be very successful so far and had surpassed JRP's initial performance expectation. However, despite the success of BALA, JRP's overall performance had declined, given a downturn in both the Canadian and global economies. As a result of the economic downturn and a historically high inflation rate, the consumer spending and disposable income of Canadians had declined while the cost of borrowing had increased. In addition, the length and severity of the continued economic downturn was unknown, and a number of prominent Canadian economists had projected that the sharp increase in inflation was expected to continue for at least the next two years. Given this, borrowing costs were expected to continue to increase for the foreseeable future. In light of the economic downturn, the board's main investment objectives had changed since Capstone 1. For any investments, JRP's board would give preference to those that provided JRP with the highest annualized return on investment (ROI). However, given the uncertainty surrounding the economy, JRP's board also indicated that they would only be comfortable with making low-risk investments. Therefore, the board's investment objectives were to make low-risk investments that provided a reliable rate of return. As such, as part of their analysis within SO#2, candidates were expected to discuss how the economic downturn could have affected the strength of each strategic investment option, and the relative amount of risk associated with each strategic option. Candidates were also expected to discuss how these main decision factors, the economic downturn, and the board's investment objectives had influenced their recommendations for which strategic investments the company should move forward with.

In addition to the importance of managing the company's investment risk, JRP also had to contend with a limited amount of investment capital, given that, other than the company's $500,000 of available investment capital, JRP's only other source of capital was a 10-year term loan of up to $7 million with an interest rate of prime plus 3%. Candidates were rewarded when they made relevant links between their situational analysis and their analysis of the strategic alternatives in SO#2, and recommendations in SO#3.

Most candidates provided an adequate summary of JRP's internal and external situation at the beginning of their report. Candidates typically included an updated SWOT analysis that highlighted the changes in the company's situation that had occurred since Capstone 1, and identified the board's main objectives to be considered in relation to the strategic options presented in the simulation. Despite recognizing the threat associated with the downturn in the economy and the company's preference for low-risk investments, many candidates failed to adequately discuss how the deteriorating economic conditions could affect the risk profile of each strategic investment option within their analysis in SO#2.

Strong candidates provided a situational analysis that tended to highlight the most relevant macro-level factors of JRP's existing internal and external business environment. Strong candidates also recognized that the downturn in the economy, and the subsequent shift away from consumer spending on products deemed as non-essential, would play an emphasized role in their analysis of each of the strategic investment options that JRP's board was considering. These candidates also highlighted the board's investment objectives and the company's limited investment capital as main decision factors that would need to be considered within their analysis. In relation to JRP's investment capital, strong candidates also recognized the risk associated with the available term loan, given its variable interest rate and the fact that borrowing costs were expected to continue to increase for the foreseeable future. Strong candidates would then consistently link their analysis of each strategic option in SO#2 to how that option would be affected by these restrictions.

Weak candidates tended to simply list JRP's mission and vision, and the company's core values and key success factors from Capstone 1, without highlighting which of those aspects would play an emphasized role in their analysis, based on the information provided in the simulation. Other weak candidates simply restated the case facts that were provided in the simulation without identifying which of those items would have the most influence on their decision-making process. Weak candidates also struggled to link their analysis of the strategic options in SO#2 and SO#3 to the most relevant situational elements presented in the simulation, such as the board's preference for low-risk investments and the downturn in the economy, and instead attempted to link their discussions and recommendations to less relevant aspects of JRP's governance policies. For example, they would make weak links between aspects of each strategic decision, and how well they did or did not fit with JRP's mission and vision statements.

SO#2 (Analysis of the Issues)

Candidates were expected to analyze five strategic alternatives, both qualitatively and quantitatively. Candidates were also expected to integrate the key macro-level aspects of JRP's internal and external situation within their analysis of each strategic alternative (such as the deteriorating economy and the board's desire to make low-risk investments in projects that provide a reliable rate of return).

Major Issue #1 (AO2): Open two additional premium dog camps or sell BALA?

Candidates were presented with whether JRP should open two new BALA-like dog camps, or instead sell BALA to the company that Gord and Irene would go and work with instead of JRP. The information required to analyze this strategic alternative was provided in the Appendix I board meeting dialogue, as well as in Appendix III. Qualitatively, candidates were expected to recognize that, although the expansion option aligned well with the "humanization of pets" trend and the increasing number of pet owners, the relative risk of operating the dog camp had appeared to increase, given the downturn in the economy and the resultant reduction in consumer spending on non-essential items. Quantitatively, candidates were expected to calculate the projected ROI of the two potential new premium dog camps at each level of occupancy rate that was provided. Candidates were also expected to discuss which level of occupancy was the most likely, given BALA's current performance and the economic downturn. Candidates could have also discussed the interest rate risk associated with the expansion, given that JRP would be required to use the variable rate term loan to finance the project, and the expectation that borrowing costs were expected to continue to increase for the foreseeable future.

Most candidates recognized the value of Gord and Irene's abilities, and how opening the two new dog camp locations would allow JRP to retain both of them. Most candidates also recognized that the demand for premium dog boarding services could increase, given that the "humanization of pets" trend was continuing to intensify and the number of pet owners was increasing; however, fewer candidates recognized that the downturn in the economy, and the subsequent drop in consumer spending on non-essential items, could have put significant downward pressure on the demand for premium dog camps. Most candidates also recognized that, by opening these new locations, JRP would help grow the company's brand in both Nova Scotia and Ontario. Quantitatively, most candidates attempted to calculate the projected ROI of the two additional dog camps at the various levels of possible occupancy provided.

Strong candidates recognized that the expansion into two new premium dog camps presented several significant risks, which meant that this strategic investment option may not have been the best fit for JRP, given the board's risk aversion. Strong candidates identified and emphasized the risk associated with the downturn in the economy, and what effect that could have on the dog camp's occupancy rates. These candidates recognized that BALA's already declining occupancy rate and the comments from existing BALA customers, who said they may not use BALA again due to its high price, were warning signs that the performance of the dog camp may continue to decline. Strong candidates also discussed the potential risk of Gord and Irene's attention becoming overextended across three dog camps instead of just one. Quantitatively, strong candidates calculated the expansion's projected ROI at the various levels of potential occupancy, and also discussed which occupancy rate was most likely, given BALA's current performance as well as the downturn in the economy. Strong candidates took a more cautious approach to their interpretation of the expansion's potential ROI, stating that the current economic climate would likely lead to a drop in the dog camp's occupancy rate when compared to BALA's performance in 2024. Finally, strong candidates recognized the risk associated with using the term loan to finance the expansion, and discussed the large inflow of cash that JRP would earn if BALA was sold for $6 million.

Weak candidates tended to miss the significant risks associated with this investment, and instead focused their discussion on Gord and Irene's strength as well as the industry trends, which indicated that the demand for premium dog camps may increase. While these were important points to consider, the significant risks associated with the investment should have been weighed against the investment's advantages. Weak candidates also tended to focus their analysis on the less pertinent situational factors, such as JRP's key success factors, rather than on the more pertinent situational factors, such as the downturn in the economy and JRP's investment objectives. Quantitatively, weak candidates still calculated the expansion's projected ROI, and highlighted the high ROI that JRP could obtain when the new dog camps reached 90% occupancy, without recognizing that this was an outcome that was unlikely to take place in the near term. Weak candidates also often failed to discuss how the expansion would be financed, as well as the offer that JRP had received to sell BALA.

Major Issue #2 (AO3): Install a pet pharmacy within JRP's existing stores?

Candidates were presented with whether JRP should renovate the company's existing stores to include a pet pharmacy within each store. The information required to analyze this strategic alternative was provided in the Appendix I board meeting dialogue, as well as in Appendix IV. Qualitatively, candidates were expected to recognize that the downturn in the economy would likely be less impactful on this option, given that most pet owners care deeply about their pets and therefore deem spending on their pet's health as essential. Quantitatively, candidates were expected to provide a basic projected earnings statement and then calculate the investment's expected ROI. Candidates could have also discussed the two options that JRP had to finance this investment, which was either accepting the available term loan or selling BALA and using the proceeds to fund the renovations.

Most candidates recognized that offering a pet pharmacy at each of JRP's pet stores could provide the company with a competitive advantage, given that pet owners would be able to access these services directly within JRP's stores without the need to go to a veterinarian. Most candidates also recognized the risk to JRP's reputation and potential liability involved if one of JRP's pet pharmacists provided poor care or improper medicine; however, fewer candidates recognized that JRP could mitigate this through obtaining liability insurance and by hiring competent pet pharmacists. Most candidates also recognized that, by investing in pet pharmacies, JRP would enter into a new regulatory environment, which could complicate the company's existing business and increase the company's costs. Quantitatively, most candidates provided a basic earnings projection for the pet pharmacies and then calculated the investment's expected ROI. However, few candidates recognized that, if JRP moved forward with both this investment and with PPC's distribution agreement (AO#5), the company would earn a 5% discount on its purchases of pet pharmaceuticals, which could have increased the overall return on investment that JRP would have earned by operating the in-store pet pharmacies.

Strong candidates provided a balanced qualitative discussion that highlighted both the significant opportunities as well as the potential risks involved in opening pet pharmacies within JRP's existing pet stores. In addition to the opportunity to gain a competitive advantage within the industry, strong candidates also recognized that this strategic investment would help the company protect its earnings from the recent downturn in the economy, given that pet owners deem the health of their pets as essential. Strong candidates also recognized the risks that JRP would be exposed to if the company decided to move forward with this investment, and then suggested ways that JRP could potentially mitigate those risks. For example, strong candidates recognized that JRP could have a difficult time hiring the required number of certified pet pharmacists to staff the pet pharmacies, and then went on to suggest that JRP verify the number of pet pharmacists the company could attract and hire through Julia's veterinarian friend before the company decided to move forward with the investment. Quantitatively, strong candidates provided a projected earnings statement and then calculated the investment's expected ROI, and then interpreted and discussed the results of their calculations in relation to the board's investment objectives, as well as the other pertinent situational factors that could have impacted the financial success of the pet pharmacies. For example, strong candidates recognized that the performance of the pet pharmacies would be less prone to fluctuations in the economy relative to JRP's premium services and products, given that pet owners deem the health of their pets as essential. Strong candidates would then link this aspect of their analysis to the board's objective to make low-risk investments that provide a reliable rate of return.

Weak candidates tended to focus their analysis on the increasing number of regulations and the reputational risk that JRP would be exposed to if one of JRP's pet pharmacists provided poor care or improper medicine to a customer's pet. Although these were important considerations, it was evident, based on the information provided (such as the fact that JRP had experience and a history of successfully meeting regulations in the past, as well as the ability to purchase liability insurance), that JRP was in a good position to mitigate the risks involved with opening the pet pharmacies. Quantitatively, weak candidates tended to simply provide the expected ROI calculation without discussing the results of the calculation in any meaningful way, such as by linking their ROI calculation to the board's investment objectives. A common error made by weak candidates was to include the cost of the renovations as an expense within their projected earnings statement, instead of recognizing it as a capital addition.

Major Issue #3 (AO4): Partner with Pet Fresh to create premium pet box delivery service?

Candidates were presented with whether JRP should partner with Pet Fresh, an up-and-coming German company that offered a subscription-based service that delivered premium pet product boxes directly to the homes of the service subscribers. The information required to analyze this strategic alternative was provided in the Appendix I board meeting dialogue, as well as in Appendix V. Qualitatively, candidates were expected to recognize that Pet Fresh's proposal did not align well with the current economic conditions, given that customers were moving away from purchasing premium products that were deemed non-essential. Quantitatively, candidates were expected to calculate the projected ROI of the investment at each degree of potential price increase. Candidates were also expected to discuss which of these outcomes was most likely, given the current economic downturn.

Most candidates did a good job of recognizing that the products included in Pet Fresh's deliveries appeared to align well with JRP's mission and vision statements, which emphasized healthy and high-quality products. Most candidates also recognized the risk involved with keeping the food products contained within the pet boxes fresh during shipping. Most candidates highlighted the advantage associated with Pet Fresh being responsible for both sourcing the products used to fill the pet boxes and shipping the boxes; however, fewer candidates recognized that this aspect of the investment also presented a significant risk to JRP, given that the quality of the service would largely be outside of JRP's control. Quantitatively, most candidates attempted to calculate the ROI of the investment at each degree of potential price increase.

Strong candidates recognized that the ongoing downturn in the economy, and the subsequent drop in consumer spending, would likely put significant downward pressure on the demand for this service. Strong candidates also recognized that, although this project would likely increase JRP's national exposure, the fact that JRP's name would be used as the brand on the pet boxes represented a significant risk to JRP if the service quality was below JRP's high standards, something that would largely be outside of JRP's control, given that Pet Fresh would be responsible for many of the operational aspects of the project. Strong candidates would then link these aspects of the investment to the board's investment objectives, and would comment on how Pet Fresh's proposal did not appear to align well with the board's desire for low-risk investments. Quantitatively, strong candidates calculated the projected ROI of the investment at each degree of potential price increase, and then went on to comment on which outcome was most likely, given the downturn in the economy. Strong candidates recognized that the price increases would likely turn out to be on the higher end, given the expectation from a number of prominent Canadian economists that the sharp increase in inflation would continue for at least the next two years.

Weak candidates often missed the significant risks, and instead tended to focus their analysis on operational advantages of the proposal, such as the fact that Pet Fresh would be responsible for sourcing the products used within the pet boxes as well as shipping the boxes, and the national exposure that JRP would gain, given that JRP's brand would be used for the pet boxes. Weak candidates also tended to focus their analysis on how well Pet Fresh's proposed service aligned with JRP's mission and vision statements. Quantitatively, some weak candidates only provided one projected ROI calculation without stating why they had chosen a certain degree of price increase, whereas other weak candidates would provide all three ROI calculations without discussing which of those outcomes was the most likely.

<u>Major Issue #4 (AO5): Become exclusive Canadian distributor of PPC's pet medicines and pharmaceuticals?</u>

Candidates were presented with whether JRP should sign an agreement with PPC, an American pet pharmaceutical developer and manufacturer, to become the exclusive Canadian distributor of PPC's pet medicine and pharmaceutical products. The information required to analyze this strategic alternative was provided in the Appendix I board meeting dialogue, as well as in Appendix VI. Qualitatively, candidates were expected to recognize that the downturn in the economy would likely be less impactful on this option, given that many pet owners consider the health of their pets as important and would therefore be likely to pay for the necessary medicine in the event that their pet became ill. Quantitatively, candidates were expected to calculate the annual income and projected ROI that JRP could expect to earn from the arrangement. Candidates could have also calculated the amount of PPC product sales that JRP would need to make before the company began to earn a return on the initial investment of $500,000.

Most candidates recognized that PPC's products were yet to be approved for sale in Canada, and therefore, there was a risk associated with the investment, given that it was unknown whether PPC's products would eventually gain the necessary approval. Most candidates also recognized that JRP had no previous experience as a product distributor and therefore lacked the knowledge of the logistics involved. Most candidates recognized that, although the demand for pet medicines was increasing, the regulations around pet medicines had become stricter and the penalties for violations had increased, which meant an increased risk for JRP. Quantitatively, most candidates provided both an annual income projection and the projected ROI that JRP could expect to earn from the arrangement.

Strong candidates recognized both the risks associated with the investment as well as the mitigations that JRP could use to reduce those risks to an acceptable level. For example, strong candidates identified the fact that PPC's products were yet to be approved for sale in Canada as a major issue, but also went on to discuss how JRP could reduce the severity of that risk by researching JRP's products and then comparing them against the standards set by Health Canada before making a final investment decision. In addition, strong candidates recognized that the risk associated with increasing regulations could also be mitigated by performing thorough due diligence on both PPC's products and the current pet medicine regulatory framework. Strong candidates also recognized that the downturn in the economy would likely be less impactful on this investment, given that many pet owners deemed the spending on the welfare of their pets as essential. Quantitatively, strong candidates provided an annual income projection and then calculated the ROI that JRP could expect to earn from the arrangement. Strong candidates would then go on to interpret and discuss the results of their calculations in relation to the board's investment objectives. For example, strong candidates recognized that the performance of this investment would be less prone to fluctuations in the economy and that, once PPC's products were approved for sale in Canada, the company's ROI from this investment was expected to steadily grow over time.

Weak candidates recognized the risks associated with the investment but often failed to discuss the mitigating factors that could be used to reduce the risks to an acceptable level. Weak candidates also tended to link their analysis to the less pertinent situational factors, such as JRP's mission and vision statements, rather than the more pertinent situational factors, such as the economic downturn and whether this proposal aligned well with the board's investment objectives. Quantitatively, weak candidates tended to simply calculate the annual income projection and the projected ROI without discussing the results of the calculations in any meaningful way. When calculating the projected annual income, some weak candidates used JRP's commission, rather than the total product sales of PPC's products in Canada, to calculate the annual variable cost.

<u>Major Issue #5 (AO6): Offer an advanced dog training program, Training+?</u>

Candidates were presented with whether JRP should proceed with Gord's proposal to offer advanced dog training courses within JRP's existing deluxe dog camp, BALA. The information required to analyze this strategic alternative was provided in the Appendix I board meeting dialogue, as well as in Appendix VII. Qualitatively, candidates were expected to recognize that the viability of the proposal directly depended on whether Gord and Irene continued to work with JRP, and also that there were several trends, such as the downturn in the economy, that could significantly lower the demand for this new service. Quantitatively, candidates were expected to calculate the projected annual income and ROI that JRP could expect to earn from the Training+ program.

Candidates could have also provided two separate potential projected income and ROI scenarios: if BALA was used as the venue for the Training+ course; and if JRP needed to rent the venue necessary to offer the Training+ course.

Most candidates recognized that moving forward with the Training+ course would likely help JRP retain Gord and Irene, and that Irene's strength as a dog trainer would likely ensure the satisfaction of pet owners who paid for the program. Most candidates also recognized that events such as the dog bite incident, which took place at BALA when Irene was demonstrating a training technique, could lead to negative reviews for the training program, which represented a risk to the long-term performance of the investment. Quantitatively, most candidates attempted to calculate the projected annual income and ROI that JRP could expect to earn from the Training+ program.

Strong candidates recognized the misalignment between the proposed Training+ program, which would be offered at a much higher price relative to regular dog training courses, and the downturn in the economy. They emphasized this point by highlighting the fact that dog owners even had free access to many dog training videos online. Strong candidates linked the "humanization of pets" trend and the increase in the number of pet owners as factors that could help increase demand for the Training+ program. Strong candidates also recognized that the viability of this investment depended directly on whether Gord and Irene would continue to work with JRP, and therefore, it was likely necessary to move forward with BALA's expansion (AO2) if this investment was going to be successful. Quantitatively, strong candidates calculated the projected annual income and ROI that JRP could expect to earn from the Training+ program, and they also recognized the need to provide two separate quantitative analyses: one in which BALA was used as the venue for the Training+ program; and another in which JRP needed to rent the venue necessary to offer the program, in the event that BALA was sold (AO2). Given this recognition, strong candidates discussed how the quantitative viability of this investment was strongly correlated to whether JRP would be able to offer the program within the company's existing dog camp.

Weak candidates tended to highlight Irene's strength as a dog trainer and the proposal's alignment with JRP's mission and vision statements as the main reasons for moving forward with this investment. Although these points had value, weak candidates tended to overlook the risks associated with the investment, such as the risk that Irene could leave JRP, which would result in the company having to find a new head trainer with a similar skill set to Irene (something that would likely be hard to do, given Irene's exceptional expertise). Weak candidates also tended to focus their analysis on the less pertinent situational factors, such as JRP's key success factors, rather than on the more pertinent situational factors, such as the downturn in the economy and JRP's investment objectives. Quantitatively, weak candidates attempted to calculate the projected annual income and ROI, but these calculations often contained errors.

One common error was to calculate two separate income projections, one for each course type, which resulted in the doubling of annual fixed costs. Weak candidates also tended to highlight the investment's low upfront cost as the main reason to move forward with the investment. Although the low upfront cost was certainly an important point to consider, there were other factors, such as the investment's ability to earn a reliable rate of return (one of the board's objectives), that should have been discussed before making an investment recommendation. Weak candidates tended to assume that the Training+ program would be offered at BALA, and therefore failed to recognize the steep decline in the investment's return if BALA was sold.

Overall

The focus of SO#2 was on the candidate's ability to integrate the board's investment objectives within both their quantitative and qualitative analyses. In relation to the board's risk aversion, candidates were expected to identify the risks associated with each investment option and discuss whether each of the identified risks could be mitigated. In addition, given the significance of the economic downturn on JRP's existing business, as well as the viability of the investment options that JRP was considering, candidates were expected to integrate the implications of the economic downturn within their analysis of each investment option. Candidates were also expected to consider whether any interrelationships existed between the investment options that JRP was considering, as well as how any recommended investment would be financed, given JRP's limited access to investment capital.

Most candidates addressed all the strategic options available to JRP and did a reasonable job of identifying a sufficient number of qualitative discussion points that pertained to each individual investment option; however, the quality of some responses was weaker on the last two AOs that were analyzed, presumably because the candidate failed to adequately allocate their allotted time to respond. Quantitatively, given the board's stated objectives, most candidates recognized the importance of calculating each investment option's potential ROI, and went on to perform that calculation to an adequate level.

Within SO#2, there were three main differentiating factors between strong and weak candidates. First, in connection with the board's stated investment objectives, strong candidates routinely discussed the risks associated with each investment, and whether those risks could be mitigated by JRP. On the other hand, weak candidates often failed to suggest risk mitigation strategies, and also struggled to identify the less obvious risks associated with each investment (such as the interest rate risk associated with using the term loan that JRP had been offered). Second, strong candidates recognized the significance of the economic downturn, and therefore routinely integrated the implications of the downturn within their analysis of each investment option.

Weak candidates often failed to do this. Third, in connection with the board's objective to earn a high return on investment, strong candidates went beyond simply calculating the ROI of each investment option, and instead discussed the results of their calculations in a meaningful way. For example, strong candidates would discuss which of the three quantitative scenarios in AO2 and AO4 were the most likely, given the current economic climate and the expectation that high inflation would continue for at least the next two years.

SO#3 (Conclude and Advise)

Candidates were expected to conclude on each issue analyzed, and to provide an overall conclusion that integrated the entity-level considerations into a cohesive and logical recommendation. A logical overall recommendation was one that discussed and integrated the board's main investment objectives as well as respected the amount of capital the company had available for strategic investment. These conclusions and recommendations were expected to be consistent with the candidate's analyses.

Almost all candidates provided issue-by-issue conclusions and an overall recommendation. What differentiated the strong candidates from the weak candidates in SO#3 was the candidate's ability to form a cohesive strategy that integrated both the board's investment objectives as well as the implications of the economic downturn within their recommendations for each investment option, as well as within their overall conclusion. For example, strong candidates went beyond simply calculating the projected ROI of each investment option by comparing the projected ROI of each option, and then discussing which investment option would likely provide the highest return. In doing so, strong candidates linked their quantitative analysis to one of the board's main investment objectives. Strong candidates also differentiated themselves from the weak candidates by recognizing the interrelationships that existed between the individual investment options. For example, strong candidates recognized that selling BALA would allow the company to move forward with the pet pharmacies without the need to access the $7 million term loan. In addition, strong candidates recognized that the Training+ program was an inadvisable investment if the company decided to sell BALA. Finally, strong candidates discussed the overall upfront investment capital required to finance the recommendations they made, and the potential ways that JRP could fund the investments.

Weak candidates did not link their recommendations for each strategic option together into a cohesive overall strategy. Instead, weak candidates tended to make their recommendations for each strategic option in isolation from their other recommendations. Weak candidates also tended to simply repeat their recommendations for each individual investment option within their overall conclusion without attempting to link their recommendations together in a useful way.

For example, although weak candidates attempted to calculate the ROI of each option, they did not compare the results of their calculations against each other, and so failed to adequately address one of the board's main investment objectives. Finally, weak candidates often made recommendations that were impossible for JRP to afford, given the financial constraints provided in the simulation.

SO#4 (Communication)

Most candidates approached their response in a coherent and organized fashion. Only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized response approach.

SO#5 (Overall Assessment)

Overall, candidates were expected to meet the minimum acceptable standards in each of the four summative opportunities in order to obtain a "Pass" on the Day 1 linked case. Candidates also had to demonstrate a minimum level of numeracy skills.

For each major issue, candidates were expected to provide a sufficient level of analysis, and then to provide a recommendation that was consistent with their analyses. Candidates were also expected to provide a reasonable amount of discussion on how well each strategic investment alternative aligned with both the board's quantitative and qualitative objectives. Finally, the board sought evidence that candidates incorporated the important elements of Capstone 1, as well as the main elements of this simulation's situational analysis, into their analysis of the major issues.

BOARD OF EXAMINERS' COMMENTS ON DAY 1 (JRP VERSION 2)

Paper/Simulation: **Day 1 – Linked Simulation, JRP V2 (on September 2024 CFE)**

Estimated time to complete: 240 minutes

Simulation difficulty: Average

Competency Map coverage: N/A; Enabling Skills

Examiners' comments by Summative Assessment Opportunity (SO)

SO#1 (Situational Analysis)

Candidates were expected to highlight the factors, both internal and external to JRP, that could have influenced the strategic decisions presented in the simulation. From the strategic options available to the company in Capstone 1, JRP had chosen to renovate five of the company's pet stores to allow for more pet services. Despite the positive reception that the renovations had with some of JRP's customers, the investment did not have a big impact on JRP's bottom line. Since Capstone 1, the company acquired a new significant shareholder and board member, Abby Clarke. Abby, who had a long and successful career in e-commerce prior to joining JRP, had invested $5 million in JRP. Also since Capstone 1, JRP's net income had declined slightly from one year to the next, as the performance of the company's pet stores had continued to decline. This decline was partially due to two significant industry trends: an increase in competition, and an ongoing industry-wide supply chain constraint that was precipitated by the global pandemic. The industry-wide supply shortage was affecting pet food and pet supplies, as well as the ability to procure enough ingredients to manufacture pet food. Moreover, while the supply chain issue was expected to eventually abate, there was a debate about how long the issue would persist, with estimates ranging from one to four years. Finally, it was expected that some goods and products would become available before others. Therefore, as part of their analysis within SO#2 and their recommendations in SO#3, candidates were rewarded when they discussed how the industry's supply shortage would likely affect the strength and viability of each of the investment proposals that JRP was considering. In addition to managing this important industry threat, the company was also faced with a limited amount of investment capital, given that JRP had only $5 million to invest, and no access to any further debt financing.

With this investment capital, JRP's board had set the objective of implementing a new strategic plan, to help ensure the company's survival and future success. To this end, JRP's board wished to increase the company's net income and to prevent the further decline of the company's existing pet stores. Candidates were rewarded when they made relevant links between their situational analysis and their analysis of the investment proposals in SO#2, and recommendations in SO#3.

Most candidates provided an adequate summary of JRP's internal and external situation at the beginning of their report. Candidates typically included an updated SWOT analysis that highlighted the changes in the company's situation that had occurred since Capstone 1, and identified the board's main objectives to be considered in relation to the investment proposals presented in the simulation. Most candidates also recognized the ongoing industry-wide supply constraint within their situational analysis; however, many candidates failed to adequately address and discuss the implications of this constraint within their analysis and recommendations. Most candidates also recognized and highlighted the company's available investment capital within their situational analysis.

Strong candidates provided a situational analysis that included an updated SWOT analysis that highlighted the most relevant macro-level factors of JRP's existing internal and external business environment. For example, strong candidates emphasized the threat related to the industry-wide supply shortage, and the uncertainty around when the supply chain would return to its pre-pandemic condition. These candidates also tended to identify the opportunity surrounding online sales and the fact that, since the pandemic, more customers were making their purchases online, a trend that JRP has yet to capitalize on. Strong candidates would then consistently link their analysis of each investment proposal to these more relevant aspects of JRP's macro-level situation.

Weak candidates tended to list JRP's vision, mission, core values, and key success factors from Capstone 1, without highlighting which of those aspects would play an emphasized role in their analysis, based on the information provided in the simulation. Other weak candidates simply restated the case facts that were provided in the simulation without identifying which of those items would have the most influence on their decision-making process. Weak candidates also struggled to link their analysis of the investment proposals in SO#2 to the most relevant situational elements presented in the simulation, and instead attempted to link their discussions to less relevant aspects of JRP's situational analysis (such as by making weak links between aspects of each investment proposal, and how well they did, or did not, fit with JRP's key success factors, as described in Capstone 1).

SO#2 (Analysis of the Issues)

Candidates were expected to analyze five strategic alternatives, both qualitatively and quantitatively. Candidates were also expected to integrate the key macro-level aspects of JRP's internal and external situation within their analysis of each strategic alternative (such as the board's objectives and the ongoing industry-wide supply shortage).

<u>AO#2: Invest in manufacturing facility and produce JRP-branded dry dog food?</u>

Candidates were expected to analyze whether JRP should enter the manufacturing side of the industry by purchasing the facility and equipment necessary to produce a premium dry dog food. Qualitatively, candidates were expected to discuss whether it made sound strategic sense for JRP to diversify the company's operations beyond pet stores by beginning to manufacture and sell its own brand of pet food. Candidates could have also recognized that Abby's connection to a nearby organic farm appeared to offer JRP a reliable source of high-quality ingredients, which was especially important, given the industry's supply shortage. Quantitatively, candidates were expected to analyze the potential profitability of this investment through the use of a valid tool, such as a net present value calculation, using a discount rate of 4.9% and a time horizon of five years. Candidates were also rewarded when they discussed how the return on this investment would increase once the company was able to secure enough ingredients to utilize the entire capacity of the manufacturing facility.

Most candidates recognized that the organic ingredients that Abby's friend offered to provide to JRP would help ensure that the company's first manufactured product aligned with JRP's commitment to sell only the highest-quality products. Most candidates also identified JRP's lack of manufacturing experience as a significant challenge that could jeopardize the success of the proposed investment; however, few candidates discussed how JRP could approach this challenge in order to mitigate the risks surrounding the company's lack of experience (such as through a thorough investigation of the regulations involved in manufacturing pet food prior to making an investment decision, to ensure as much as possible, that JRP would be able to meet those requirements). Quantitatively, most candidates attempted to assess the potential profitability of the proposed investment, using the information provided; however, fewer candidates recognized that the quantitative strength of the proposed investment would improve once the industry's supply shortage was resolved, given that JRP would then be able to utilize more of the new facility's capacity.

Strong candidates recognized that, even though Abby's friend was able to provide a significant amount of high-quality ingredients, JRP still needed several additional ingredients before the company would be able to manufacture its first production run of dry dog food. Given the industry's supply shortage, strong candidates highlighted this risk, and suggested that JRP determine whether the company would be able to procure all the necessary ingredients before making a final decision on whether to move forward with the proposed investment. Strong candidates also recognized that the demand for premium dry pet food was growing, and that JRP could take advantage of that trend by moving forward with the proposed investment. Quantitatively, strong candidates made good use of the information provided related to JRP's typical investment analysis method to compare investments (a five-year time horizon and a discount rate of 4.9%), to produce a straightforward and accurate net present value calculation. Strong candidates also discussed whether the proposed investment would help JRP meet the board's objective of making investments that would increase the company's net income.

Weak candidates tended to highlight the industry's supply shortage as a main reason not to move forward with the manufacturing proposal, even though JRP had already secured a large quantity of high-quality ingredients from Abby's friend. Moreover, rather than discuss ways that JRP could minimize the remaining risks associated with the industry's supply shortage, weak candidates tended to reject the proposal, even though it appeared to align well with both the board's objectives and the growth in popularity of premium dry pet food. Weak candidates also tended to rely on the simulation's more obvious case facts to analyze the proposal (such as the fact that JRP had no experience in manufacturing), and tended to miss its more subtle strategic implications (such as the potential to attract more customers to JRP's existing pet stores by offering a loyalty member discount if the new product was purchased in stores). Quantitatively, although weak candidates attempted to calculate the proposal's potential profitability, they routinely failed to integrate JRP's preferred investment analysis method in their calculation. As a result, rather than a net present value calculation, many weak candidates only calculated the proposal's projected annual income.

AO#3: Expand e-commerce operations and acquire three fulfilment centres across Canada?

Candidates were expected to analyze whether JRP should upgrade the company's online ordering system and acquire three fulfilment centres across Canada, which would allow JRP to quickly ship its products all over the country. Qualitatively, candidates were expected to discuss whether it made sound strategic sense for JRP to expand the company's e-commerce operations. Candidates could have recognized that this investment would help JRP take advantage of the growing popularity of online shopping, and would also help JRP catch up to its competitors, who offered modern online ordering systems and easy-to-use websites. Candidates could have also recognized that JRP would be required to procure the additional products that would be sold through the proposed fulfilment centres, something that would likely be very challenging, given the industry-wide supply shortage. Quantitatively, candidates were expected to analyze the potential profitability of this investment through the use of a valid tool, such as a net present value calculation, using a discount rate of 4.9% and a time horizon of five years. Candidates were also rewarded when they discussed how the proposed investment would likely lower the income of JRP's existing pet stores, given that 15% of the expected online orders were likely to come from customers who would have otherwise made that purchase within an existing JRP store.

Most candidates recognized that Abby's background in e-commerce and logistics would help to ensure the success of the proposal, and that JRP's customers who shop online would likely welcome an upgrade to the company's online ordering system, given that it was currently outdated and hard to use. Most candidates also recognized that the expansion into e-commerce would make it challenging for JRP to utilize one of the company's greatest strengths: its superior customer service. Most candidates also recognized that the industry's supply shortage could hinder JRP's ability to fulfill its online orders, given that the company was already struggling to adequately stock the shelves of its existing pet stores. Quantitatively, most candidates attempted to assess the potential profitability of the proposed investment. Most candidates also recognized that JRP's in-store sales would likely decline as a result of the e-commerce investment.

Strong candidates, in addition to recognizing the risk associated with the industry's supply shortage, went a step further and suggested various ways that JRP could assess and reduce the risk prior to making an investment decision (such as by investigating whether the company could acquire all the product required, to realize the revenue projection figure). Strong candidates also did a good job of recognizing that the e-commerce expansion was unlikely to help JRP meet the board's objective of preventing the continued decline of the company's existing pet stores. However, strong candidates did point out that this investment would alleviate the need for JRP's in-store employees to package and ship the company's online orders, a fact that would likely improve the company's in-store customer service. Quantitatively, similar to AO#2, strong candidates integrated JRP's typical investment analysis method into their calculation to produce a straightforward and accurate net present value calculation. Strong candidates also highlighted the uncertainty surrounding the provided revenue projections, given the industry's supply shortage and the potential need to lower the company's prices in order to effectively compete with the big national chains, who already offered pet owners the ability to shop online.

Weak candidates struggled to identify and discuss the more impactful strategic considerations of the proposal, and instead relied on making links to the less relevant aspects of the company's situational analysis within their qualitative analysis. For example, rather than emphasizing the increase in competition that JRP would encounter when trying to win online customers, weak candidates tended to make weak links to the company's core values, such as how this proposal would not allow the company to carry out its core value of developing and rewarding the skills of the company's employees. Other weak candidates highlighted the proposal's upfront cost of $4.05 million as a main reason not to invest, even though JRP had enough investment funds to sufficiently cover this cost. Quantitatively, similar to AO#2, weak candidates routinely failed to integrate JRP's preferred investment analysis method within their calculation; therefore, instead of a net present value calculation, many weak candidates only calculated the proposal's projected annual income.

AO#4: Acquire 20% of BWF, a small manufacturer of premium pet food?

Candidates were expected to analyze whether JRP should acquire a 20% equity stake in BWF, a small and relatively new manufacturer of premium, raw pet food. Qualitatively, candidates were expected to recognize that, provided BWF could procure all the necessary ingredients it needed to scale up its production of raw pet food, this investment proposal appeared to align very well with the board's investment objectives. Candidates could have recognized that BWF's products had become favourites among JRP's customers, and that this investment would allow the company to offer BWF's products in more of JRP's existing pet stores. Candidates could have also recognized the apparent synergies between this investment proposal and the proposal for JRP to expand its business into manufacturing pet food. Quantitatively, candidates were expected to calculate the incremental increase in profit that JRP could expect to earn from this investment, and then evaluate the overall investment value through the use of a valid tool, such as a net present value calculation, using a discount rate of 4.9% and a time horizon of five years.

Most candidates recognized that BWF's business and products appeared to align well with JRP's commitment to sell only superior products, given that BWF's raw pet food was of the highest quality. Most candidates also noted that the acquisition would allow JRP to provide its customers with more of this popular product, and emphasized the importance of this, given the industry's ongoing supply shortage. However, fewer candidates recognized the uncertainty around BWF's ability to procure the ingredients necessary to scale up production, and therefore provide JRP's stores with more of its products, as intended. Most candidates also recognized the spoilage risk associated with shipping BWF's raw food, but few candidates recognized how this meant that BWF's products would not align well with JRP's e-commerce expansion proposal. Quantitatively, most candidates attempted to assess the potential profitability of the proposed investment.

Strong candidates recognized the uncertainty associated with whether BWF would be able to procure the ingredients necessary to scale up the production of its products, and suggested that JRP review BWF's plan and ability to obtain these ingredients prior to making a final decision. Strong candidates also identified the various synergies between this investment and JRP's proposed expansion into manufacturing. For example, strong candidates recognized that BWF's owners, a pet nutritionist and a food chemist, could likely support JRP in developing the recipes needed to produce a high-quality dry dog food. Other strong candidates recognized that BWF could potentially use the available space within JRP's proposed new manufacturing facility, given BWF's need for additional space and JRP's projected underutilization of the new manufacturing facility that was being considered in AO#2. Strong candidates also recognized that, because BWF's products were exclusively available in stores, the investment would align with the board's objective of improving the performance of the company's existing pet stores, given that more customers would likely be drawn to the stores that began to offer BWF's products.

Quantitatively, strong candidates calculated the incremental increase in profit that JRP could expect from the investment, and then converted that figure into a five-year net present value calculation with a discount rate of 4.9%. Strong candidates also suggested that JRP determine the value of BWF's business prior to making the investment, to ensure that JRP was paying a fair price for 20% of BWF's equity.

Weak candidates tended to focus on the more operational aspects of this decision (such as the need to keep BWF's products refrigerated, and how that would increase JRP's costs) rather than on the more impactful strategic aspects (such as the question of whether BWF would be able to procure the ingredients necessary to scale up the company's production). Weak candidates also struggled to identify the strategic links between this investment and the other proposals that JRP was considering. For example, although they recognized the expertise of BWF's owners as advantageous, weak candidates linked this aspect of the proposal to JRP's core value of selling high-quality products. Quantitatively, many weak candidates struggled to calculate the incremental increase in profit that JRP could expect from the investment, and did not translate the result of that calculation into the investment's overall anticipated net present value.

<u>AO#5: Sign a purchase agreement with Koda and begin to sell JRP-branded pet supplies?</u>

Candidates were expected to analyze whether JRP should sign a private-label pet supply purchase agreement with Koda, which would allow JRP to sell JRP-branded pet supplies. Qualitatively, candidates were expected to recognize the trade-off between resolving the company's supply shortage for pet supplies, and offering products of mid-range quality rather than the high-quality products that JRP was known for. Candidates could have also recognized the potential synergies between this proposal and the proposal for JRP to expand its e-commerce operations by acquiring three fulfilment centres across Canada. Quantitatively, candidates were expected to calculate the anticipated effect that signing the purchase agreement would have on JRP's annual gross profit. Candidates were also rewarded when they assessed whether JRP's expected annual sales of Koda's products would be sufficient to ensure that JRP met the purchase contract's annual minimum purchase guarantee of $6.5 million.

Most candidates recognized that signing the purchase agreement would alleviate JRP's current struggle to adequately supply its stores with pet supplies. Most candidates also recognized that Koda's products were of lesser quality when compared to the products that JRP typically offered; however, whereas weak candidates only linked this disadvantage to either JRP's vision, mission, or core values, strong candidates recognized its wider implications, given that these products would carry the JRP brand. Most candidates also recognized the disadvantage associated with the purchase agreement's annual minimum purchase guarantee, and that signing the agreement would likely mean that JRP would need to sever its long-standing relationships with the company's current suppliers of pet supplies. Quantitatively, most candidates attempted to calculate the anticipated effect that signing the purchase agreement would have on JRP's annual gross profit.

Strong candidates recognized that severing the company's relationships with its existing suppliers could have negative long-term impacts on JRP, given that the company could be unable to recover those relationships in the future. Strong candidates also added value to their response by suggesting amendments to Koda's proposed purchase agreement. For example, strong candidates recognized that the industry's supply shortage would likely be resolved within one to four years, whereas the term of Koda's proposed purchase agreement was eight years. As such, strong candidates suggested that JRP negotiate a shorter term, which would allow the company the freedom to find alternative suppliers once the industry's supply chain issues were resolved. Strong candidates also identified the strategic link between this proposal and JRP's proposed e-commerce expansion, recognizing that the Koda purchase agreement could likely provide JRP with all the additional pet supplies that JRP would need, to facilitate the anticipated increase in sales the company would make via the improved online ordering system. Quantitatively, strong candidates calculated the expected effect that signing the purchase agreement would have on JRP's annual gross profit, and noted that the proposal aligned with the board's objective of increasing the company's net income.

Weak candidates struggled to recognize the more pertinent implications of the proposed purchase agreement's advantages and disadvantages. For example, when discussing the fact that pet supplies received from Koda would be labelled with JRP's brand, rather than recognizing the risk of associating the company's brand with lower-quality products, weak candidates identified this as an advantage because it would help JRP build brand recognition. As another example, weak candidates linked the proposed purchase agreement to the key success factor of having strong relationships with suppliers without recognizing that, in order to meet the agreement's annual purchase minimum, JRP would need to sever the company's long-standing relationships with its existing suppliers. Quantitatively, many weak candidates struggled to accurately calculate the effect the purchase agreement would have on JRP's gross profit. For example, rather than attempt to quantify the actual amount of pet supplies that JRP expected to purchase from Koda, many weak candidates simply assumed that JRP would only purchase the amount required under the annual minimum purchase guarantee ($6.5 million).

<u>AO#6: Engage PSC and invest in the development of a custom mobile application?</u>

Candidates were expected to analyze whether JRP should hire PSC to build a custom mobile application, and if so, which of the three modules JRP should choose to include in the application. Qualitatively, candidates were expected to recognize that offering its customers a mobile application would improve JRP's online presence, and would help satisfy the customers who preferred to make their purchases online. Candidates were also expected to recognize that JRP's choice of which modules to include in the mobile application would be influenced by whether JRP decided to invest in manufacturing dry dog food (AO#2) or instead, the e-commerce expansion (AO#3). Quantitatively, candidates were expected to assess this proposal through the use of a valid tool, such as a net present value calculation, using a discount rate of 4.9% and a time horizon of five years, and depending on which modules they recommended that JRP include in the mobile application, candidates were expected to analyze the potential profitability of the investment.

Most candidates recognized that the mobile application would likely be a welcome addition for some of JRP's customers. Most candidates also recognized that the mobile application could result in lost in-store sales; however, fewer candidates tied this aspect of the decision to the board's objective of preventing the continued decline of the company's existing pet stores. Most candidates also discussed how the mobile application would limit JRP's ability to provide its customers with superior customer service, and then tied that disadvantage into an aspect of the company's situational analysis, such as the core value of providing pet parents with knowledgeable advice. Quantitatively, most candidates attempted to assess the potential increase in profitability that JRP could expect from the mobile application.

Strong candidates, in addition to discussing the advantages and disadvantages of offering JRP's customers the mobile application, also typically discussed the merits of each separate module. For example, strong candidates recognized that the learning and information library would help JRP provide the mobile application's users with superior customer service, and how that could mitigate one of the investment's key disadvantages. Strong candidates also recognized that the attractiveness of the e-commerce module would increase significantly if JRP also decided to move forward with the e-commerce expansion (AO#3). Quantitatively, based on which modules the candidate recommended that JRP include in the mobile application, strong candidates calculated the investment's net present value using the company's preferred investment analysis method. Some strong candidates provided multiple net present value calculations, to show the quantitative attractiveness of the mobile application, based on which modules were included.

Weak candidates tended to discuss only whether JRP should develop the mobile application, and did not discuss the merits of each separate module, or which modules JRP should choose to include in the application's development. Weak candidates also linked the development of the mobile application to the key success factor of investing in good technology and information systems, but struggled to assess whether the investment made good strategic sense, given JRP's current circumstance and objectives. Quantitatively, weak candidates attempted to assess the potential attractiveness of the mobile application, but rather than a net present value calculation, most weak candidates provided either a payback period or return-on-investment calculation, which had less value, given that these tools did not align with the board's preferred investment analysis method.

<u>Overall</u>

The focus in SO#2 was on the candidate's ability to integrate the key elements of the company's global situation (such as the industry-wide supply shortage and the board's investment objectives) within their analysis and discussion of each AO, and to recognize that the attractiveness of each choice the company was faced with depended on whether JRP decided to invest in manufacturing dry dog food (AO#2) or instead, in the e-commerce expansion (AO#3). Because some investment proposals integrated well with each other (such as the manufacturing dry dog food proposal and the proposal to purchase equity of BWF), whereas other combinations did not work well together (such as the e-commerce expansion and the BWF equity purchase), candidates were expected to identify and discuss at least some of the interconnections that existed between each of the proposals.

Most candidates addressed all of the investment proposals available to JRP; however, some candidates did not provide a fulsome discussion on the simulation's last assessment opportunity (the proposal to invest in the development of a customized mobile application). These candidates typically provided a very detailed situational analysis, and therefore did not allow themselves sufficient time to respond more fully to the investment proposals that came toward the end of the simulation. Quantitatively, most candidates attempted to assess the profitability of each investment option; however, many weak candidates failed to integrate the information provided, relative to JRP's preferred investment analysis method. Therefore, rather than net present value calculations, many weak candidates only calculated each proposal's expected annual operating income, or used another quantitative assessment tool, such as a return-on-investment calculation, which did not align with the board's typical approach.

Within SO#2, there were three main differentiating factors between strong and weak candidates. First, strong candidates provided a greater depth of discussion relative to how the industry's supply shortage could affect the viability of each investment proposal. For example, strong candidates recognized that the supply shortage was expected to be resolved within one to four years, and included that consideration within their response. On the other hand, weak candidates tended to only discuss whether each investment proposal would make JRP's supply concern better or worse, without elaborating on the situational aspects that could either increase or decrease the risks related to the shortage. Second, strong candidates were better able to identify and discuss the interrelationships that existed between the five investment proposals that JRP was considering. For example, strong candidates recognized that it made sound strategic sense for the company to acquire 20% of BWF if JRP also decided to invest in the manufacturing facility (AO#2), given the benefits that BWF would likely bring to that new aspect of JRP's business. Third, when compared to weak candidates, strong candidates provided more relevant implications for the case facts they included within their qualitative analysis. For example, relative to the case fact that investing in the expansion of JRP's e-commerce operation would make it a challenge for the company to provide its customers with strong customer service, weak candidates routinely discussed how this would not allow JRP to use one of the company's key strengths. Although this consideration was relevant, strong candidates went a step further and explained how this compromise might be necessary, to ensure that JRP kept up with its competitors by providing a user-friendly and modernized online ordering system.

SO#3 (Conclude and Advise)

Candidates were expected to provide a conclusion for each investment proposal, as well as an overall conclusion that was consistent with their analyses. Candidates were also expected to recognize, and not violate, the company's limited investment capital within their overall recommendation, and to provide recommendations that integrated the key elements of the company's global situation into a cohesive and strategic recommendation. For example, candidates could have integrated the board's objectives within their recommendations, and discussed how their recommendations would help the company achieve its goals. As another example, candidates could have integrated the industry's supply shortage within their recommendations, and discussed how their recommendations would allow JRP to navigate this considerable threat. In addition, candidates could have added value to their recommendations by discussing the strategic interrelationships that existed between the investment proposals that they suggested JRP move forward with.

Almost all candidates provided issue-by-issue conclusions and an overall recommendation. What differentiated strong candidates from weak candidates in SO#3 was the ability to form a cohesive strategy for how the company could achieve the board's objectives, while also managing the challenges associated with the supply shortage, by suggesting relevant and helpful ways that JRP could mitigate the risks associated with the shortage. For example, strong candidates recognized that both the manufacturing expansion (AO#2) and the BWF investment (AO#4) would likely help prevent the continued decline of JRP's existing pet stores, and also suggested that JRP do its best to determine whether both JRP and BWF would be able to procure all the necessary ingredients prior to making a final investment decision. On the other hand, although weak candidates tended to provide recommendations for each investment proposal, as well as an overall conclusion, they struggled to link these recommendations together in a logical and strategic way. For example, rather than provide additional value in their overall recommendation, some weak candidates simply copied their conclusions for each individual investment proposal at the bottom of their response. Other weak candidates attempted to integrate the board's investment objectives into their recommendations, but instead of explaining *how* their recommendations aligned with the objectives, they simply commented that their recommendations would help the board achieve its goals.

SO#4 (Communication)

Most candidates approached their response in a coherent and organized fashion. Only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized response approach.

SO#5 (Overall Assessment)

Overall, candidates were expected to meet the minimum acceptable standards in each of the four summative opportunities in order to obtain a "Pass" on the Day 1 linked case. Candidates also had to demonstrate a minimum level of numeracy skills.

For each major issue, candidates were expected to provide a sufficient level of analysis, and then to provide a recommendation that was consistent with their analyses. Candidates were also expected to provide a reasonable amount of discussion on how the company could achieve its investment objectives while also managing the risks associated with the industry's supply shortage. Candidates were also expected to provide an overall recommendation that did not violate the company's limited investment capital. Finally, the board sought evidence that candidates incorporated the important elements of Capstone 1, as well as the main elements of this simulation's situational analysis, into their analysis of the major issues.

APPENDIX I

CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

CPA COMMON FINAL EXAMINATION
REFERENCE SCHEDULE

Present Value of Tax Shield for Amortizable Assets

Present value of total tax shield from CCA for a new asset acquired after January 1, 2024, and before January 1, 2028, other than those eligible for immediate expensing, which would normally be subject to the half-year rule.

$$= \frac{CdT}{(d+k)}$$

Present value of total tax shield from CCA for a new asset acquired after January 1, 2024, and before January 1, 2028, other than those eligible for immediate expensing, which would not normally be subject to the half-year rule.

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.25k}{1+k}\right)$$

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018, and before January 1, 2024, other than those eligible for immediate expensing.

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.5k}{1+k}\right)$$

Notation for above formula:

C = net initial investment
T = corporate tax rate
k = discount rate or time value of money
d = maximum rate of capital cost allowance

Selected Prescribed Automobile Amounts

Item	2023	2024
Maximum depreciable cost — Class 10.1	$36,000 + sales tax	$37,000 + sales tax
Maximum depreciable cost — Class 54	$61,000 + sales tax	$61,000 + sales tax
Maximum monthly deductible lease cost	$950 + sales tax	$1,050 + sales tax
Maximum monthly deductible interest cost	$300	$350
Operating cost benefit — employee	33¢ per km of personal use	33¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	68¢ per km	70¢ per km
— balance	62¢ per km	64¢ per km

Individual Federal Income Tax Rates

For 2023:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $53,359	$0	15%
$53,360 and $106,717	$8,004	20.5%
$106,718 and $165,430	$18,942	26%
$165,431 and $235,675	$34,208	29%
$235,676 and any amount	$54,579	33%

For 2024:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $55,867	$0	15%
$55,868 and $111,733	$8,380	20.5%
$111,734 and $173,205	$19,833	26%
$173,206 and $246,752	$35,815	29%
$246,753 and any amount	$57,144	33%

Selected indexed amounts for purposes of computing income tax

Personal tax credits are a maximum of 15% of the following amounts:

Item	2023	2024
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins	$13,520	$14,156
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins	15,000	15,705
Age amount if 65 or over in the year	8,396	8,790
Net income threshold for age amount	42,335	44,325
Canada employment amount	1,368	1,433
Disability amount	9,428	9,872
Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount	2,499	2,616
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,999	8,375
Net income threshold for Canada caregiver amount	18,783	19,666
Adoption expense credit limit	18,210	19,066

Other indexed amounts are as follows:

Item	2023	2024
Medical expense tax credit — 3% of net income ceiling	$2,635	$2,759
Old age security repayment threshold	86,912	90,997
Annual TFSA dollar limit	6,500	7,000
RRSP dollar limit	30,780	31,560
Lifetime capital gains exemption on qualified small business corporation shares	971,190	
Lifetime capital gains exemption for dispositions before June 25		1,016,836
Lifetime capital gains exemption for dispositions on or after June 25		1,250,000

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2024	6	6	5	
2023	4	5	5	5
2022	1	1	2	3

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
Class 1	4%	For all buildings except those below
Class 1	6%	For buildings acquired for first use after March 18, 2007, and ≥ 90% of the square footage is used for non-residential activities
Class 1	10%	For buildings acquired for first use after March 18, 2007, and ≥ 90% of the square footage is used for manufacturing and processing activities
Class 8	20%	
Class 10	30%	
Class 10.1	30%	
Class 12	100%	
Class 13	N/A	Straight line over original lease period plus one renewal period (minimum 5 years and maximum 40 years)
Class 14	N/A	Straight line over length of life of property
Class 14.1	5%	For property acquired after December 31, 2016
Class 17	8%	
Class 29	50%	Straight-line
Class 43	30%	
Class 44	25%	
Class 45	45%	
Class 50	55%	
Class 53	50%	
Class 54	30%	

The CPA certification program prepares future CPAs to meet the challenges that await them. For more information on the qualification process, the common final examination (CFE), and the specific education requirements for your jurisdiction, contact your provincial/regional CPA body.

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