

## **STRATEGIC CASE STUDY**

**7 June 2022**

## **MARKING SCHEME**

*The answers detailed below show some but not all possible answers that were accepted by the marking team. Marks were awarded for other valid answers that might not be included in this document.*

### Key to marks:

Calculations or the manipulation of numerical data.

Most calculations will be straightforward such as the creation of accounting ratios to interpret financial performance, or assessment of the sensitivity of particular estimates.

Some specific calculation marks may be allocated but candidates should not be judged solely on whether figures are 'correct', but on how they reached their figures and the reasonableness of their assumptions and approach.

### Narrative

The candidate will be required to demonstrate in their narrative responses, an assessment of the impact and implications of the analysis performed and application of appropriate elements of the syllabus as part of further critical evaluation. Narrative responses should demonstrably inform decisions being faced within the case scenario.

Marks will be awarded for the evaluation of the information given in the context of the specific issues raised by the case scenario. It should demonstrate consideration of an appropriate breadth of issues, such as financial and non-financial perspectives, stakeholder considerations, ethical considerations, strategic risks and the strategic objectives and environmental context of the organisation. Candidates will be expected to demonstrate professional judgement in drawing from this evaluation appropriate conclusions, making practical and relevant recommendations and focusing their answer to suit the user(s).

The allocated marks should again be seen as a guide. Some additional credit may be awarded (within the total marks available for the section concerned and subject to the requirement for appropriate coverage of a breadth of relevant issues) for points which have been developed with particular insight or cogency.

The marking scheme will identify (in bold) points of particular significance for which marks will be ring-fenced. This will limit the marks awarded to candidates who miss the most salient issues.

Reasonable credit may also be given for any points which have not been included in the marking scheme but are clearly valid in the context of the candidate's own analysis of the case material.

### General comments:

It is essential that candidates answer all the questions as set and meet the requirement to achieve a minimum of 25% of the marks available for each question.

Any attempt to evade the terms of the question on the grounds that the situation depicted in the examination scenario is unlikely to have arisen or occurred, or is improbable in concept, will not be awarded any credit.

**Question 1 (55 marks)**

Q1	Response points	Marks	Syllabus ref	Appr'p ref
ai	<p><i>Critically analyse the schedule of costs and revenues associated with the closure of Etra Spar which has been prepared by the gallery director, and discuss any other potential financial implications of the closure that may not have been considered.</i></p> <p><b>1 mark per developed point to a maximum of 20</b></p> <p><b>Analysis of the schedule</b></p> <p>Income</p> <ul style="list-style-type: none"> <li>The 'sale of property' figure may not have taken into account the associated net book value and accumulated depreciation in EAG's financial accounts. For accounting purposes, profit/loss on disposal is a relevant consideration in this decision.</li> <li>Given the current planning regime in Kandin, it is likely that KRC will have to approve the plans for the conversion of the building into housing, and EAG is unlikely to secure a buyer if planning is not granted. The predicted sales income of £10 million presumably assumes that planning permission will be given. If planning is not granted the sale price may be far lower.</li> <li>Further related issues to consider: <ul style="list-style-type: none"> <li>KRC has stringent planning laws and although it has begun to look more favourably on planning developments for new housing, it is not certain that planning for the site will be granted.</li> <li>KRC has even blocked proposals for improving the site as an art gallery despite the work that it has done to promote tourism in the area and the relationship that it has with Etra Spar, suggesting the planning department is not easily persuaded.</li> <li>If KRC is opposed to the sale of Etra Spar on the grounds that loss of the gallery will damage the economy of the region, it may be less inclined to agree to the proposal (although its current resistance to refurbishment plans suggests that the planning and arts departments within KRC</li> </ul> </li> </ul>	20	MA: B1, D4; FM: C1, C2 FA: D1 SCS: A1-A4, A6, B1-B3, C1-C2, D1-D3	K: ARC, BA, FI, SBMG; S: BI, C, L, PSDM; B: AV, F, PS

	<p>do not take a coordinated approach and so this may be less of a concern).</p> <ul style="list-style-type: none"> <li>○ Even with planning permission granted, the closure of Etra Spar will be another blow for the town, and could detrimentally affect house prices – which would in turn affect the value of the property.</li> </ul> <ul style="list-style-type: none"> <li>• Shops and businesses closed in the area during the pandemic. It is reasonable to assume therefore that there may be a surplus of commercial property available, so this might not be a good time to be attempting to sell the gallery and may mean that the estimated sale price is overstated.</li> </ul> <p>Refurbishment cost</p> <ul style="list-style-type: none"> <li>• The refurbishment figure of £700K should not be included in the schedule. It would be a one-off sum rather than an annual cost and distorts the assessment of the profitability of the gallery.</li> <li>• Other things being equal, the saved annual running costs should be restated as (£2 142K - £700K) = £1 442K. Even before any consideration is given to the matters that follow, the annual net income from the gallery would then be £1 808K – £1 442K = £366K profit which suggests that it is more than covering its costs.</li> </ul> <p>Saved costs</p> <ul style="list-style-type: none"> <li>• The figure for on-going building maintenance is based on the current year's costs and therefore builds in an assumption that no refurbishment work will be carried out on the building going forward. However, if the gallery is kept open, and EAG refurbish the building, it is likely that future on-going maintenance costs will be lower than this after it has been refurbished.</li> <li>• If the gallery stays open, until the refurbishment is agreed and scheduled it may be reasonable to assume that maintenance costs may increase further.</li> <li>• It is also conceivable that maintenance costs were affected by the closure caused by the pandemic and so current year costs may not be representative of likely future costs that would be saved. For example, the costs could have been lower than normal due to the fact that some maintenance activity is normally necessary as a</li> </ul>			
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	<p>result of the impact of visitors and commercial events in the building and so these costs may have fallen during the pandemic.</p> <ul style="list-style-type: none"> <li>• On the other hand, the gallery may have taken advantage of the closure to schedule maintenance work that is difficult to progress when the building is occupied by visitors, staff and events and so the maintenance costs may have been higher than usual during the pandemic.</li> <li>• Although some salaries and on-costs will be saved if the gallery is closed, the following issues should be considered: <ul style="list-style-type: none"> <li>○ Not all of the staff working at Etra Spar work for the gallery. 20 of them work for Etra Merchants and their pay may not be recorded in the Spar accounts and may not therefore be allowed for in the estimates. The figures should be carefully reviewed to ensure that all staff have been included.</li> <li>○ No provision appears to have been made for redundancy costs. Given the number of staff involved and the geographical spread of the galleries, it seems unlikely that the staff would all be transferred to other jobs in EAG. However, it is common in developed nations for there to be a legal requirement to compensate workers if they lose their jobs and, if this is the case in Rothland, this will need to be taken into account in the costings.</li> </ul> </li> <li>• The building is currently expensive to heat. It is likely that the future utilities costs will be lower if the building is refurbished.</li> <li>• The costs of advertising and signage should be closely scrutinised, as most of the costs associated with exhibitions are reimbursed by Mojo Bank, and as such are not actual expenses of the gallery and will not be saved in the event of gallery closure.</li> <li>• Whilst it is likely that artworks insurance costs are higher for pieces which are out on display, EAG will still own all the items and will still need to insure them. The amount to be included should be the savings in insurance costs if they are stored safely not the total cost paid currently.</li> </ul>			
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	<ul style="list-style-type: none"> <li>• A related cost that has not been included in the schedule is the additional storage costs that will be incurred if the collection is not out on display, which is presumably likely for most, if not all, of the pieces if the gallery is closed. The collection also includes a large number of sculptures which may mean significantly more space is required to store them safely which will mean a further increase in holding costs.</li> <li>• Allocated head office costs are rarely saved when a centre or branch closes. They often relate to fixed administration costs and whilst the closure of Etra Spar may make the administration burden lower for staff in head office in the short-term, it is unlikely to lead to significant actual cost savings.</li> <li>• However, any closure of Etra Spar may mean that EAG's head office does not need to expand capacity to cope with the expansion of Etra Enne – and if this is the case then any saved expansion costs should be estimated and included in the costings instead.</li> </ul> <p>Foregone future income</p> <ul style="list-style-type: none"> <li>• The estimated revenue associated with foregone future income is likely to be flawed for several reasons: <ul style="list-style-type: none"> <li>◦ The visitor numbers are based on figures which have been badly affected by the pandemic. There are indications that visitor numbers are rising to pre-pandemic levels and future visitor numbers may be significantly above the figure assumed here, so the foregone income estimate is likely to be understated.</li> <li>◦ If the building is refurbished as planned, this should provide the gallery with a much-needed boost and increase visitor numbers still further.</li> <li>◦ The closure of Etra Spar is likely to impact more than just on-site visitor income. It is highly likely that many of the visitors to the gallery are members of EAG, and many of these may therefore cancel their memberships. Since membership income is the largest source of income for EAG after RAC grants, this would be a serious financial blow for the organisation.</li> <li>◦ It will therefore be important to examine the location of existing members and</li> </ul> </li> </ul>			
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	<p>make a realistic estimate of lost membership as a result of the closure.</p> <ul style="list-style-type: none"> <li>○ It should be additionally borne in mind that the expansion of Etra Enne, whilst it may generate some new memberships, is unlikely to fully compensate for this loss, as many art lovers in the region are already likely to be existing EAG members.</li> <li>○ There may also be a negative impact on web sales from the closure of Etra Spar as visitors to the gallery may also visit the website later to buy related merchandise.</li> <li>○ KRC is also focused on attracting more visitors to the region, and a refurbished Etra Spar may well benefit from this if they are successful, which would again increase visitor numbers.</li> </ul> <ul style="list-style-type: none"> <li>• It is not clear what is included in the figure of £700K for the refurbishment. However, it appears to be a capital amount and may well not include any loss of income that will result during the period of the renovations. If this is the case that should be estimated separately and included in the evaluation alongside the cost of the renovations.</li> <li>• The Etra Spar café is independently successful, although it is not clear whether this would still be the case if it had to pay commercial rent or rates for the property it occupies. Detailed costings should be obtained as it may be possible to sell it as a going concern if the gallery is closed. If the choice is made to refurbish the gallery, consideration should then be given to the impact the building work will have on the café income during the period of the building work, and this should be taken into account in any costings.</li> </ul> <p><b>Other potential financial issues to consider</b></p> <ul style="list-style-type: none"> <li>• No mention has been made in the schedule of the lost income from hire of the gallery to film makers / wedding planners etc. This is booked centrally by Etra Merchants who would need to provide an estimate of expected future income, but again it should be included in the overall schedule.</li> <li>• Additionally, no mention has been made of lost donations. There are two ways in which donation income might be expected to fall if Spar was closed: the donations boxes that are located in the building would no longer be used, and there</li> </ul>			
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	<p>may also be visitors to the gallery who later decide to donate either to EAG directly or by leaving a bequest in their wills, and this income will also be lost.</p> <ul style="list-style-type: none"> <li>• Related to this is the potential impact on national sponsors who are linked to the broader EAG brand. They may also be unhappy at the closure of Spar as they will lose some of their national advertising reach. This could result in them being less willing to provide the sponsorship they currently contribute.</li> <li>• In particular, closure of the gallery may mean losing the support of Mojo Bank which has been heavily involved with Etra Spar, as its support appears likely to be linked to the location of its headquarters in the region. Since it has also been involved in sponsoring national tours the loss of their support may also have wider repercussions for EAG overall.</li> <li>• Significant adverse publicity around the closure could also lead to cancelled memberships. Since these are the largest source of income for EAG after RAC grants, this would have serious financial consequences at a time when it is clearly already facing significant financial challenges, in particular due to the pandemic, especially in relation to cash flow.</li> </ul> <p><b>Conclusions</b></p> <ul style="list-style-type: none"> <li>• The schedule provided suggests that the gallery is currently loss making. However, without the inclusion of the refurbishment costs, it makes a positive contribution to EAG. What's more, since most of the issues identified above suggest that the saved costs would be lower and the lost income would be higher, it is likely that the contribution is actually significantly higher, and if visitor numbers continue to rise, would be higher still in future years.</li> <li>• This gives a weight to the case for retaining and refurbishing the gallery, because the cash income from the gallery, which will be lost if it is closed, could in practice be used to finance the loan which will be needed if Option 2 is selected.</li> <li>• It would also be helpful to compare this lost income with the incremental income expected from the extension at Etra Enne –although financial factors are not all that need to be taken</li> </ul>			
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	<p>into account, the board of EAG should at least know whether the new development will make EAG financially better off.</p> <ul style="list-style-type: none"> <li>Additionally, the figures provided relate only to one year. Whilst this provides an indication of whether the gallery will make money over the next 12 months it does not present the whole picture. To improve the information content of the schedule, EAG should produce longer-term forecasts for each figure over a realistic future time frame (say, the next 5 years) and use them to calculate the present value of each of the amounts. (The low interest rates in Rothland at the moment suggest that a low discount rate would be appropriate – and this means that the value of the future costs and revenues would be substantially the same in present value terms.) The net present value of the net savings / costs can then be assessed and compared directly with the cost of the refurbishment to determine if it is worthwhile.</li> <li>One final point that should be taken into account throughout this evaluation, is that as well as not being an accountant Charlie Thomson may not be fully objective. As a current long-term employee of Etra Spar, Charlie will be directly impacted by the closure – and therefore may be incentivised to understate the costs (to keep it open and preserve jobs) or overstate the costs (to be in the running, potentially, for a high value redundancy payment). Either way, all the figures in the schedule must be fully reviewed for accuracy.</li> <li>Overall, despite the issues with the details of the costs and income detailed above, the schedule shows a significant net capital receipt. It is likely that this would finance most, if not all, of the capital costs of setting up the new gallery, if a decision is made to close Etra Spar.</li> </ul>			
aii	<p><i>Evaluate the additional non-financial factors which should be considered before any decision is taken on whether to close Etra Spar.</i></p> <p><b>1 mark per developed point to a maximum of 12</b></p> <ul style="list-style-type: none"> <li>EAG's own mission states it is to 'celebrate and share the art of the past and the present day' not to make money, and so it is also important to evaluate any planned closure against that aim.</li> </ul>	12	SPD: B1-B3, C2, C3  SCS: A1-A4, A6, B1-B4, C1-C2, D1-D3	K: ARC, BA, LSP, SBMG;  S: BI, C, L, PSDM;  B: AV, F

	<ul style="list-style-type: none"> <li>• Closure of the gallery will mean denying visitors a chance to see even more of the art held in EAG's permanent collection (at least in person). There is therefore an argument that, provided the charity is able to finance the refurbishment in such a way that it is not actively losing money and threatening its overall financial security, the gallery should be kept open to fulfil its overall aims.</li> <li>• Additionally, EAG is a government funded charity. There is an argument that the people of Rothland have a 'right' to enjoy what their money has bought. The grants paid to the EAG by the DACS are funded from taxes paid by people of Rothland, and the grants from the RAC come either via the DACS or from lottery funding which may be considered akin to a hypothecated or earmarked tax. Since closing Spar would mean fewer people could access the art owned by EAG, the decision can be seen, at least in part, as contrary to the policy principles behind EAG's funding.</li> <li>• Certainly, the fact that the gallery is largely funded with public money suggests that it should consider a broader spectrum of stakeholders than just those directly connected with the organisation. The discussion that follows therefore considers the impact on external stakeholders in the Spar region.</li> <li>• Closure of the Etra Spar gallery would be a real blow for the town of Spar and the Kandin region as a whole as it is heavily dependent on tourism for its trade and Etra Spar is a key part of what attracts people to the area. It is likely that KRC will be extremely concerned about the proposal, and, given the importance of tourism to the national economy, and the contribution to that of the arts, it is not inconceivable that national government could register concerns about it.</li> <li>• The gallery is also part of the 'See Spar's Splendours' ticket and since there is likely to be an element of cross-selling between the attractions, their visitor numbers may also be adversely affected.</li> <li>• The gallery is a significant employer and its closure would mean the potential loss of 102 jobs, in a town which is already experiencing high levels of unemployment. Its closure will also impact those businesses that form part of its downstream supply chain (cleaning companies,</li> </ul>			
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	<p>suppliers to the café etc) with the potential for further job losses.</p> <ul style="list-style-type: none"> <li>• The Art for All campaign run in conjunction with KRC would also be badly impacted and the opportunities for children and charity service users across the region to enjoy the benefits of art, which were clearly considered so important, would be lost.</li> <li>• Spar is known as a town that has had a long history of attracting artists, so EAG having a gallery there is a good fit and the links that are likely to have been developed with the local artistic community should not be overlooked when making a decision of this nature.</li> <li>• The view of KRC will be an important consideration. Given the importance of the gallery for the town, if the council realises that there is a genuine risk of closure, the planning department may be more sympathetic to future planning requests for the refurbishment plans. This would save time and money, allowing the refurbishment work to take place more quickly and improved revenues to be earned.</li> <li>• As a result of KRC levying taxes on sales, it is likely to be inherently unkeen on decisions by bodies such as EAG which are likely to have an adverse impact on tourism in the region. However, it may be that closure of the gallery, and the land becoming used for new property, will offset this adverse effect on the council's tax revenues by increasing property tax income, which may be a more reliable long term source of tax revenue for the council.</li> <li>• Since closure of the gallery will be bad for the economy of Spar town, bring about the loss of at least 102 jobs, and remove a source of art and culture from the region, it is likely to result in negative publicity for EAG as a whole.</li> <li>• In addition, if the workers facing redundancy are part of a union, the union may take up the cause and raise the profile of the closure, which would risk adding further to the negative publicity.</li> <li>• If the arts journalist working for the RAC opposes the closure, they will be well-placed to generate additional national coverage of the story, and this could cause further damage to the EAG brand.</li> </ul>			
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	<ul style="list-style-type: none"> <li>EAG's mission also refers to 'ensuring access for all'. Closing a significant gallery in one part of the country in favour of extending a gallery that already exists elsewhere does not seem compatible with the mission to make art more accessible to all.</li> <li>As discussed in the financial section, the impact on external stakeholders, and the apparent conflict of the decision with the EAG's mission, may upset members and sponsors alike, particularly if there is significant adverse publicity around the closure. This could lead to yet more cancelled memberships or sponsors pulling out over the longer term, and, generally, reputational damage for EAG.</li> <li>This is likely to feed into the concerns expressed by some members of the RAC who, from the outset, were opposed to the appointment of Juliste Bajek and the radical proposals to rationalise the EAG. Even if, by closing Spar, the Etra Enne development can be funded without the help of the RAC, it is likely that EAG will need to apply to the RAC for other funding grants in future and this decision may make them look less favourably on those requests.</li> <li>One related issue which would need to be investigated is whether any of the art displayed at Etra Spar is subject to particular conditions about where it could be displayed (in the same way that the recent bequest specifies it must be displayed in Enne), as this could have implications about what EAG can do with the art going forward.</li> </ul>			
aiii	<p><i>Evaluate the comparative suitability of the three potential options for funding the bank loan repayments if Etra Spar is not closed, and discuss any other matters which should be taken into account if bank finance is obtained.</i></p> <p><b>1 mark per developed point to a maximum of 13, to a maximum of 10 for the option evaluation, including a minimum of 2 marks reserved for each option, and a maximum of 5 marks for other considerations regarding bank finance.</b></p> <p>Option a</p> <ul style="list-style-type: none"> <li>EAG is still suffering from the fall in visitor numbers that was caused by the pandemic. For</li> </ul>	13	FM: D1 SPD: B3 SPF: A6  SCS: A1-A4, A6, B1-B4, C1-C2, D1-D3	K: ARC, BA, LSP, SBMG;  S: BI, C, L, PSDM;  B: AV, F

	<p>many potential visitors, a trip to an art gallery is a discretionary purchase, and the decision to go may be relatively sensitive to price. Raising charges could therefore deter visitor numbers at the very time EAG is trying to recover them, and due to the potentially high elasticity of demand may reduce income rather than increase it.</p> <ul style="list-style-type: none"> <li>• In general, the economy is struggling after the pandemic, and an increase in prices for items of a discretionary nature might not be sensible at present (this point applies equally to option b).</li> <li>• Higher admission charges could also have an adverse knock-on effect on other sources of income such as web sales by reducing visitor numbers and/or reducing visitors' income for such additional discretionary purchases.</li> <li>• If EAG increases charges this would reduce the accessibility of the art for members of the public, particularly if the free entry for concessions is removed. This is contrary to EAG's mission statement, and may therefore not gain the support of the Trustees.</li> <li>• Increased charges could also be seen as in conflict with the mission of the RAC which is specifically focussed on increasing the accessibility of art for the people of Rothland. EAG will be dependent on the RAC for the majority of the funding needed for the development, but it may be difficult to persuade it to support the project if this option is used to raise funds for the rest.</li> <li>• Alternatively, if the RAC believes in the extension project, it may consider increasing the proportion of grant funding it provides will reduce the impact on prices and so this avenue is worth exploring further.</li> <li>• It could also be argued that as the gallery is funded in large part by government tax revenue and the national lottery, customers are already being asked to pay twice to enter, and that raising the charges yet further is even more unfair.</li> <li>• On the other hand, raising charges (if they are sustainable) helps to protect EAG from the impact of any future government expenditure cuts and helps it to become more self-sufficient – which is an important consideration for many publicly funded bodies.</li> </ul>			
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	<ul style="list-style-type: none"> <li>• Within this option there are effectively two alternative approaches: i) increasing the price of entry (to the gallery generally and/or to temporary exhibitions) and ii) removing free entry for some groups. Presumably EAG could decide to make only one of these changes and it is worth considering them separately. Maintaining free entry to some groups whilst raising the prices for others may offer a middle ground – preserving access for those who may struggle to afford it otherwise, whilst raising funds from those who can pay.</li> </ul> <p>Option b</p> <ul style="list-style-type: none"> <li>• It is likely that demand for gift shop purchases is quite elastic. These are not essentials, and many of the sales made in the on-site gift shops are likely to be impulse purchases made by gallery visitors passing through, who are likely to just happen to spot something they might like as a souvenir. As a result, increasing the prices may diminish the sales made to such an extent that we do not see an increase in income.</li> <li>• However, increasing the price of merchandise and venue hire is likely to be a more favourable option than increasing visitor prices, if it can raise similar levels of funds. <ul style="list-style-type: none"> <li>○ Etra Merchants is an experienced profit-making business and it should be able to identify those items, or booking periods, that are most price insensitive – that is, those which could sustain an increase in prices without causing a significant fall in sales. This will help to maximise the funds raised.</li> <li>○ Even if some customers are deterred from purchasing goods or making bookings, this is less controversial than deterring visitors to the gallery itself in terms of EAG’s mission; it is therefore likely to be more acceptable to the trustees of the EAG and to the RAC which is especially important given that they are assumed to be providing the rest of the funding.</li> </ul> </li> <li>• However, Sam Becker has also argued that many visitors to the website go on to visit the membership pages. It will therefore be important to ensure prices are not set so high that visitors are immediately put off from spending any more time on the website.</li> </ul>			
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	<ul style="list-style-type: none"> <li>• Hire for weddings and filming might be a more sensible area to increase prices, depending on our competition in these markets and whether hirers could find what they are looking for elsewhere. Research should be done on the competitiveness of the market to ascertain whether it would bear a price increase.</li> </ul> <p>Option c</p> <ul style="list-style-type: none"> <li>• It seems unlikely that on its own reducing permanent collection displays in favour of more fee-paying exhibitions will be sufficient to raise enough money quickly, not least because previous exhibitions have required the support of RAC grants or specific sponsors such as Mojo Bank, which suggests they are initially expensive to set up.</li> <li>• It is, though, a subtler way of raising fees and may have a less adverse impact on demand than could be the result of either option a or b.</li> <li>• However, it is a risky option, as we are not sure of the appetite for a greater number of higher fee temporary exhibitions. The economy is struggling and people may not have the disposable income at present to attend lots of fee-charging exhibitions.</li> <li>• It is possible, though, that showing less of the permanent collection will upset sponsors who supported specific purchases, or run counter to specific bequest conditions.</li> <li>• However, on the upside, EAG currently shows a significantly higher percentage of its overall collection than other galleries, which suggests that it could reasonably show less without causing too much consternation and if the current pricing structure is maintained, concessions would get discounts to the exhibitions and so would not be too disadvantaged.</li> <li>• There are likely to be additional costs associated with this option which will need to be quantified. These include: <ul style="list-style-type: none"> <li>◦ Additional administration to organise the exhibitions</li> <li>◦ Transport / set-up / take-down costs for the temporary exhibitions</li> <li>◦ Additional marketing costs to ensure the public are aware of the exhibitions available</li> </ul> </li> </ul>			
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	<ul style="list-style-type: none"> <li>○ Storage costs for the permanent collection now not on display.</li> </ul> <p>Other considerations regarding bank finance</p> <ul style="list-style-type: none"> <li>• The information provided suggests that most of the EAG's previous growth funding has come from grants, bequests etc. It is therefore unused to the commercial rigours associated with bank finance and may struggle to meet the criteria may be imposed, such as specific working capital ratios.</li> <li>• One of the reasons that EAG may not have traditionally used bank funding is that it has a high level of operating gearing. This makes it particularly susceptible to downturns in the numbers of visitors or levels of commercial sales it makes. Taking out a sizeable bank loan will mean adding financial gearing into the mix which will increase its overall risk profile. Given the uncertainties over future growth rates in the market, its depleted reserves and its current liquidity problems could put EAG's entire future at risk.</li> <li>• Additionally, the loan will probably be secured on the main Etra building, and if it is unable to keep up its repayments, then theoretically at least, the building itself would be at risk. (In practice it is possible that the government or the RAC would step in if this were to occur to support the EAG since the building is one of great architectural merit, and owned by a government funded charity.)</li> <li>• The figure of 65% for the amount that would be provided by RAC is currently only an estimate. If the eventual amount agreed by RAC is a lower amount, then the repayments would be at an even higher level and this may make it unaffordable.</li> <li>• But even if the full amount is offered now, interest rates are currently extremely low in Rothland, and some economists are predicting future increases, which could push costs up to unaffordable levels.</li> <li>• EAG should consider the most appropriate form of borrowing to seek from the bank. Given the expected rise in interest rates, it may well make sense to take out a fixed rate loan which will provide some protection against the interest rate</li> </ul>			
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	<p>risk, rather than a variable rate loan which would increase their exposure to it.</p> <ul style="list-style-type: none"> <li>It will be important to perform some sensitivity analysis on the estimates to determine the impact of these uncertainties on the cash flows of the business.</li> </ul>			
b)	<p><i>Prepare notes in which you discuss the ethical issues arising as a result of the request from Sam Becker, Managing Director of Etra Merchants, and consider the appropriate actions that you could take.</i></p> <p><b>1 mark per developed point to a maximum of 10, with up to 7 marks for the discussion and up to 5 for actions to take. The points below refer to Umi when referencing the candidate, but candidates may use the first person for such points, which would also be appropriate.</b></p> <p>Ethical principles</p> <ul style="list-style-type: none"> <li>The fact that Sam Becker SB has texted Umi's private mobile phone rather than making contact through official EAG channels may suggest aware that his request is inappropriate and that he does not wish it to be officially recorded or monitored by EAG. This view is reinforced by some of the text content, with references such as 'we can keep this between ourselves'.</li> </ul> <p>The ethical issues arising from the request made by Sam Becker can be evaluated by reference to the relevant fundamental ethical principles by which qualified accountants are typically bound:</p> <ul style="list-style-type: none"> <li>Integrity - Members should not be associated with any report in which the information is materially false.</li> </ul> <p>The figures which support any application for the loan must be the genuine best estimates of the likely income associated with each of the options. It is not acceptable to massage them so that they appear in a more favourable light.</p> <ul style="list-style-type: none"> <li>Objectivity - Members should not compromise professional judgement because of undue influence.</li> </ul> <p>The reference by Sam Becker to the support that might be expected during the next rotation at Etra Merchants could be interpreted as a veiled threat to damage Umi's promotion prospects if</p>	10	<p>FA: B1, B2 CGL: H4 SCS: A1-A5, B1-B4, C1-C2</p>	<p>K: ARC, LSP; S: EI, PSDM; B: PS</p>

	<p>the figures are not presented in the way requested. This is an intimidation threat but should not be allowed to affect the decisions made about the figures presented to the bank.</p> <ul style="list-style-type: none"> <li>Professional competence and due care – Members must act diligently and apply technical and professional standards.</li> </ul> <p>Professional standards of prudence and accuracy must be applied, which does not allow for the presentation of inflated or massaged numbers.</p> <ul style="list-style-type: none"> <li>Confidentiality - The principle of confidentiality relates to the disclosure of information obtained as a result of a business relationship to a third party.</li> </ul> <p>Sam Becker has asked that this request is kept private and not disclosed. However, there is no confidentiality issue in reporting this request internally to senior management. Additionally, if the matter cannot be successfully resolved, and needs to be referred to, for example, the accountancy body which regulates the candidate, for support and advice, this would be a legitimate exception to the rule of confidentiality.</p> <ul style="list-style-type: none"> <li>Professional conduct - Members must avoid any conduct that might discredit the profession.</li> </ul> <p>Conspiring to produce false or inflated figures is in direct conflict with this requirement.</p> <ul style="list-style-type: none"> <li>Professional scepticism – Members are expected to always have a questioning mind, alert to the possibility of misstatement due to error or fraud, and critically assess all evidence provided.</li> </ul> <p>Unquestioningly accepting the views and opinions of Sam Becker, or failing to critically review the options in the light of all the evidence available, would be a failure of professional scepticism.</p> <p>Appropriate actions – threats and safeguards</p> <ul style="list-style-type: none"> <li>Having identified a number of potential conflicts which could arise regarding compliance with ethical principles, it is important to evaluate the severity of the threats, and then take steps to eliminate or reduce them to an acceptable level.</li> <li>The limited content in Sam’s text makes it difficult to be sure of what would happen if it was simply</li> </ul>			
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	<p>ignored, but it seems unwise to do so as it appears to contain considerable threats to Umi's compliance with the code, including:</p> <ul style="list-style-type: none"> <li>○ Intimidation – there is a veiled threat of an impact on Umi's career should the figures not be in accordance with Sam's wishes, and pressure to keep quiet about the threat.</li> <li>○ Self-interest - there is an incentive for Umi to do as Sam requests to protect future career prospects.</li> <li>○ Advocacy – producing figures deliberately designed to support a bank loan will involve promoting the firm's position to the point where objectivity is compromised.</li> </ul> <ul style="list-style-type: none"> <li>• The first step would always be to attempt to resolve the issue directly. One option, which may actually be required by Mina anyway, would be to send the figures to Mina for review before they are provided to the Board for consideration. This logical step, would ensure that Sam was unable to exert any further pressure on Umi. Umi could simply reply by email via the EAG email system, stating that the figures will be checked by Mina and that every effort will be taken to ensure they are accurate.</li> <li>• However, if Sam continues to put on pressure to inflate the numbers, then Umi should report the issue to someone more senior that they trust at EAG. It would be wise to raise the issue at the lowest management level available and only escalate the matter, with their support, if it cannot be resolved. This could be a member of human resources, or Kit Branton, their line manager in the finance department.</li> <li>• If the matter still can't be resolved, then Umi could speak directly to Mina Ramarosan, or another senior manager. If this is not possible, or still does not solve the issue then they should consider taking external professional advice.</li> <li>• Additionally at all times, Umi can consult with their accountancy body on how to proceed as it is likely to have has experts who are trained to assist their members with ethical dilemmas.</li> </ul>			
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**Question 2 (45 marks)**

Q2	Response points	Marks	Syllabus ref	Appr'p ref
a	<p><i>Discuss the potential benefits and risks of investing in a data analytics project to improve data collection and analytics at EAG.</i></p> <p><b>1 mark per developed point to a maximum of 14 with a maximum of 9 for each of benefits and risks</b></p> <p>Potential benefits</p> <ul style="list-style-type: none"> <li>EAG currently only collects and uses a fraction of the data available to them and is therefore missing existing business opportunities available. For example: <ul style="list-style-type: none"> <li>The growth of the youth market at EAG is anecdotal rather than actually measured. It would be much easier for example, for Jem Alakija, director-in-charge of Etra Enne, to convince key decision makers about the potential benefits of some new modern exhibitions such as tattoo and graffiti art if it were possible to demonstrate this growing demographic with hard data.</li> <li>Also, Jackie Birkin, Head of Audiences has commented on how fractured the current art market is. By having greater understanding of the makeup of all of EAG's visitors, and those countries they come from, EAG can improve the focus of its marketing message and its reach.</li> <li>The current estimate of foreign visitor numbers is based on the languages in which leaflets taken by visitors are written, which is hardly a reliable measure given that Rothland residents may, for example, take such a leaflet and foreign visitors may not. Sophisticated analytics will allow EAG to explore the demographic, geographical location, and shopping behaviours of their customers and respond accordingly.</li> <li>Some visitors to the cafes often don't actually go into the galleries at all – it may be possible, by using loyalty cards for café customers for example, to find out more about who these visitors are and when they</li> </ul> </li> </ul>	14	<p>BCM: A1, A3</p> <p>SCS: A1-A5, B1-B4, C1-C2, D1-D3</p>	<p>K: ARC, BA, SBMG;</p> <p>S: BI, C, EI, L, PSDM;</p> <p>B: AV, F</p>

	<p>come, and so encourage them to make more of their visit whilst they are there.</p> <ul style="list-style-type: none"> <li>• If the website is to be upgraded, this system will allow for the data it captures to be integrated with wider information sources, and therefore will maximise the use that can be made of it. For example, EAG will be able to track visitors through the site, and combine information about them with Big Data on what themes are currently popular, to choose what to show from their permanent collection, or what new exhibitions to put together.</li> <li>• And if online exhibitions are available, digital exhibits can presumably be added/removed from digital tours etc much more quickly and cheaply than with physical exhibitions, which will allow EAG to react to trends / news stories via Big Data to keep their work current.</li> <li>• Collecting data on website visitors (such as tracking what brings them to the site, what they then do and in what order (e.g., buy goods then sponsorship) may also help to demonstrate the vital role played by Etra Merchants and change attitudes towards the business across EAG. This is important as it is a vital part of the finances of the gallery as a whole.</li> <li>• Since EAG is up to date with its legal data collection and protection requirements, this removes a potential difficulty with increasing levels of data collection. However, it will be important to review all the policies and ensure that they remain compliant as data collection becomes more significant.</li> <li>• Once EAG has data collection and analytics systems in place they may be able to start data sharing with partner organisations – for example the RNG with whom they have close links via their board of Trustees, and potentially other galleries across the country – either directly or via the RAC or the DDW – and this would allow them to cross-sell and so expand their reach further.</li> <li>• Data analytics work could also provide some valuable insights into the performance of the three different galleries and the differences between them, which may help EAG manage</li> </ul>			
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	<p>its collections and exhibitions across the three galleries more effectively.</p> <ul style="list-style-type: none"> <li>• Generally, in addition to a wide range of operational decisions that could be better supported by data analytics, it could be particularly helpful in planning and determining EAG future strategies.</li> </ul> <p>Potential risks</p> <ul style="list-style-type: none"> <li>• The £200 000 grant from the RAC needed for 80% of the investment may not be forthcoming. Although digital development projects are usually viewed in a favourable light, the funding has not yet been obtained, and, typically, payments are only for 75% of the amount required.</li> <li>• Since data is not currently analysed, presumably some decisions are currently made without the data to back them up. A change to a more data driven decision-making approach may upset existing decision makers who will have to provide evidence to support their suggestions, though they should be supported by the evidence-based professional staff who will need to put them into place. Cultural change is often resisted by staff, and any change to the working practices will need to be carefully managed.</li> <li>• There can be a limit to how reliable the diagnostic part of data analytics is in practice, in other words it can lead to unsound assumptions on causality, particularly given a wealth of external factors that can potentially affect human behaviour, such as the pandemic and the economic picture.</li> <li>• Although EAG is currently compliant with data protection regulations, the new system would represent a significant increase in the use of data and matters such as data collection methods, privacy protection, and security would all need to be reassessed to ensure the systems are still adequate.</li> <li>• Additionally, some of the current customer base may be uncomfortable about having extra data collected about them and refuse to give their consent, which presumably will be required. It may be necessary to communicate with those customers on the current mailing</li> </ul>			
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	<p>list, to explain their plans and all the benefits it will bring, so that they are more inclined to consent to the collection of their data when requested, a campaign that will have resource, and potentially, cost implications.</p> <ul style="list-style-type: none"> <li>• It will be vital to ensure that the data analytics work is focused and that the insights it offers are tied in with the organisation's strategic priorities. It is all too easy to collect data and produce analysis that no-one actually uses. It will be important to speak to key stakeholders to identify what they would need to know.</li> <li>• Inadequate budgeting is a common problem in IT projects and delays and budget overruns are all too common. To mitigate this risk, management will need to ensure that they have taken account of the following: <ul style="list-style-type: none"> <li>○ Changeover costs – this relates not just to the physical implementation of the new system (which should be included in the quote) but also includes staff training on new ways of working. These costs could be significant given the current 'low tech' culture at EAG and the resistance of some staff to change that was noted by many of the key staff.</li> <li>○ The new system will need to integrate effectively with existing systems that are being retained, which may lead to compatibility issues and/or increased costs.</li> <li>○ Post-implementation support costs - a high level of support from developers is usually needed for the first three months after a new system is implemented to deal with user queries, but this is often not built in to initial estimates. Since it is likely to represent a new way of working for many EAG decision-makers, this support will be essential if the best is to be made of the system.</li> <li>○ Fixed price contracts are particularly problematic for the development of IT systems as suppliers are often provided with inadequate information about the organisation's business needs, and tender bids are set too low to achieve all the organisation's goals. This is a particular</li> </ul> </li> </ul>			
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	<p>risk where the decision makers have a limited understanding of IT and what it can offer.</p> <ul style="list-style-type: none"> <li>○ This is often coupled with poor contract negotiation on behalf of the organisation such that the supplier is not obliged to improve the system when the gap between expectation and delivery emerges. This can lead to the provision of a system which is inadequate and poorly supported and which fails to do what was expected of it.</li> <li>○ This is likely to be compounded by optimism bias – where decision makers underestimate the risks and overestimate the potential benefits of the system. This is particularly problematic with IT projects which are often complex and poorly understood by sponsors. It will be important to ensure that EAG's key stakeholders understand the technology and the requirements.</li> <li>○ All of the above issues indicate the need for a significant contingency - IT projects are notorious for taking way longer than envisaged and going over budget. Typically, a contingency of around 20% would be built in to take account of this risk, and that would mean being prepared to spend a further £50,000 on top of the £250,000.</li> </ul>			
ii)	<p><i>Evaluate the strategy for EAG to offer online exhibitions to complement existing in-person gallery visits.</i></p> <p><b>1 mark per developed point to a maximum of 15</b></p> <p><b><i>Note: candidates are not required (or even expected) to have gathered their points together under specific headings.</i></b></p> <p>Achieving objectives</p> <ul style="list-style-type: none"> <li>• As with all the strategies under consideration it will be important that EAG keeps in mind its overall mission – which is to encourage engagement and ensure access for all. Although covering costs is important in order to ensure the future of the gallery, it's primary focus is to bring art to the people – and</li> </ul>	15	<p>SPD: A3, A4, A5, B1, B2, B3, C1, C3</p> <p>SCS: A1-A5, B1-B4, C1-C2, D1-D3</p>	<p>K: ARC, BA, SBMG;</p> <p>S: BI, C, L, PSDM;</p> <p>B: AV, F</p>



	<p>offering online exhibitions in addition to in-person visits should help to extend its reach, provided the pricing structure is not prohibitive.</p> <ul style="list-style-type: none"> <li>• It would also allow them to integrate features specifically designed for those with some physical impairments such as descriptioning and captioning – which can be readily integrated with online exhibits.</li> </ul> <p>Commercial factors</p> <ul style="list-style-type: none"> <li>• The RAC is committed to improving digital engagement in the arts sector, so this strategy is likely to receive a lot of external support and there may be potential for funding too.</li> <li>• In addition, there are free resources available to support this strategic move, such as the DDW, which is very positive given EAG's difficult financial situation.</li> <li>• EAG has recently developed a reputation for uninspiring exhibitions and not utilising digital technologies, and online exhibitions may help counter this reputation if executed properly.</li> <li>• Online exhibitions may fit well with EAG's membership schemes, as it could provide access associated with memberships. It may then also increase its overall membership, as access could be provided immediately so that those applying for membership have an 'instant' useable benefit.</li> <li>• EAG has had one successful exhibition but this was during the pandemic lockdown when people had limited choices available for entertainment. Now that they can go to galleries in-person, as well as return to other forms of entertainment, EAG will need to be sure that there still an appetite for online entertainment of the type offered, and so it would be ideal to have conducted robust market research on the proposal.</li> <li>• Since they have close links with RNG, EAG may be able to approach its management for information about the digital projects they have carried out to find out what works and what is popular. As well as getting information from them directly, they could collaborate with</li> </ul>			
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	<p>other galleries across Rothland via the RAC, or via the DDW.</p> <ul style="list-style-type: none"> <li>• There may even be an opportunity to work together on projects with organisations such as RNG – in the same way that they now borrow works for their exhibitions – and this should perhaps be investigated.</li> <li>• The move to online would also create an opportunity to reach greater international audiences. This would help to market the gallery abroad and, as Jackie Birkin noted, the online exhibitions can also work to attract further in-person visits from them over time.</li> <li>• Gaining an international reach may also lead to more opportunities to work with international partners in future – such as putting on joint exhibitions – which will further increase the opportunities for cross selling.</li> <li>• It will also allow EAG to attract wider domestic audiences such as those that live too far away to visit a gallery in-person, those that have accessibility needs that make it difficult to visit and those who are still concerned post pandemic about entering crowded public spaces. This will fit well with EAG’s mission to expand access and over time these may also translate into in-person visits as well.</li> <li>• The fact that only 15% of the current permanent collection is on display suggests that there is a rich store of art that could be better utilised and curating online exhibitions offers a new way to share it maybe via a subscription / membership to raise additional funds.</li> <li>• With such a fractured market - the challenge of attracting visitors to online art galleries will be considerable – it will be important for EAG to find the appropriate place/vehicle to market to each potential group. The proposed data analytics project will go some way to achieving that aim.</li> </ul> <p>Risks</p> <ul style="list-style-type: none"> <li>• One of the potential risks of providing exhibitions online is that, rather than acting as an incentive for in-person visits, it may be seen as an alternative and cause a</li> </ul>			
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	<p>corresponding drop in in-gallery ticket sales and so, in effect, cannibalise EAG's existing market. This may be addressed by offering inducements to buy in-person tickets once someone has paid to see the exhibition online.</p> <ul style="list-style-type: none"> <li>• EAG are new to the use of social media, and will need to step up their marketing to ensure that they can generate sufficient awareness of the new exhibitions. Given their current weakness with social media it is likely that they will already be considering recruiting a new social media officer to help them make the most of the opportunities it offers. But, if not, it will be certainly be a requirement once they start producing high levels of online content, which has cost implications.</li> <li>• Little is known about the audience that viewed the exhibition run during the pandemic – yet this will be vital information going forward to ensure that the exhibitions are attractive to audiences. The need for improved information provides a compelling argument for the data analytics project being considered.</li> <li>• A policy will be needed on whether free or discounted admission is offered to those groups that currently obtain this for in person visits to EAG. It may be an extra level of complexity to check proof of entitlement etc online, and it is more open to abuse than in-person free/discounted entry.</li> </ul> <p>Returns</p> <ul style="list-style-type: none"> <li>• EAG has high operating gearing, that is, the majority of its costs are fixed with every visitor contributing directly to profit. This means that to break even on the cost of putting on the exhibition it will be necessary ensure it attracts high enough visitor numbers.</li> <li>• When visitors turn up in person, they can be encouraged to finish with a visit to the gift shop through which they must pass as they exit the gallery. To maximise returns links to the online shop can be added within the exhibition to encourage web purchases.</li> <li>• Costs may well be lower than a live exhibition but digital products are difficult to cost reliably. As with the online exhibition already curated, marginal costs are almost zero, and fixed costs</li> </ul>			
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	<p>can be hard to allocate as determining suitable drivers is complex. This makes pricing for break-even or profitability a real challenge.</p> <ul style="list-style-type: none"> <li>The lifetime of a digital product is also hard to gauge – especially with so little experience – so determining whether or not it will meet standard investment appraisal criteria can be impossible. This may be an argument for using payback criteria – currently they are keen to improve reserves and it will be much easier to measure the potential income over the next couple of years than a longer timeframe.</li> </ul> <p>Resources</p> <ul style="list-style-type: none"> <li>It appears that the collaboration with We.B.Art was successful for the Light and Power exhibition, and presumably this partnership can be resurrected? Alternatively, EAG will have to find a new partner to work with – at least initially – as it is unlikely to have sufficient expertise in-house.</li> <li>The buy-in of professional staff will be vital. The difficulty is that culturally they are resistant to new ideas. However, as they are evidence-based decision makers, the new data collection project should start to provide the back-up needed. Good communication will be essential to keep them onside.</li> <li>It may be necessary to reskill experts to become online documentary providers especially the ‘behind the scenes’ staff working on restoration etc. who are not used to working in the public eye. Alternatively existing volunteers could be trained up to work in front of the cameras.</li> <li>EAG may be able to tap into the resources already available at, for example, the RNG. They have reciprocal arrangements on their trustee boards so may be able to work together at an operational level too.</li> </ul>			
iii)	<p><i>Critically evaluate the financial implications of the three options to upgrade the website, providing reasoned conclusions on the way forward.</i></p> <p><b>Up to 6 marks for calculation with detailed mark allocations as per the spreadsheet, plus 1 mark per developed narrative point to a maximum of 10, with a minimum of 2 marks</b></p>	16	<p>FM: C5</p> <p>SCS: A1-A4, A6, B1-B3, C1-C2, D1-D3</p>	<p>K: ARC, BA, FI, SBMG;</p> <p>S: BI, C, L, PSDM;</p>

	<p><b><i>reserved for each option and a minimum of 2 marks reserved for the conclusions.</i></b></p> <p>General points</p> <ul style="list-style-type: none"> <li>• It should be noted that the following analysis has ignored the impact of the time value of money. However, as the predictions have only been made over the short-term and interest rates are currently low, discounting the figures is not likely to have a material effect.</li> <li>• Evaluation of the proposals would ideally be based on the long-term outcomes rather than just on the initial cost and two years' worth of information. Although software projects tend to have a shorter useful economic life it would have been helpful to evaluate the system over, say, 3-5 years, despite the current uncertainties. This would allow for the development of clear best- and worst-case assessments.</li> <li>• The analysis also takes no account of cash flow issues. While each option is expected to be profitable over the two year period, options 2 and 3 require significant investment, and some borrowing is likely to be required to fund at least part of these investments, and so EAG would need to be confident that it can service the repayment costs, even though interest rates are currently low.</li> <li>• A further consideration is that it is not clear what assumptions were used in production of the probabilities and sales forecasts so they cannot be examined for reasonableness, but it is important to remember that all of the options could fail to yield the gains predicted, and could even fail to cover their initial costs.</li> <li>• The projected outcomes for the options, due to being based on expected values, represent the long-run average outcomes that would be achieved if the decisions were to be repeated multiple times. If, as appears to be the case here, the decision is made just once, then the actual range of outcomes would be even greater than the summarised figures represented by the expected value.</li> <li>• It is not clear what is included in the estimated costs included in the information provided for the analysis. Decision-makers need to be</li> </ul>			B: AV, F, PS
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	<p>assured that all costs relevant to the decision have been taken into account, including upfront investment costs, ongoing running costs and opportunity costs.</p> <ul style="list-style-type: none"> <li>• In addition, the following points specific to individual options should be taken into account:</li> </ul> <p>Option 1</p> <ul style="list-style-type: none"> <li>• This option provides a baseline 'do minimum' comparator against which to measure the other two options.</li> <li>• It may, though, not be reasonable to assume that sales will grow 1.5-3% on what is effectively a 'do minimum' option, particularly in light of the current economic picture.</li> <li>• It is clearly affordable as the money has already been approved by the RAC, which means that it can definitely go ahead, though, as this was approved some while ago.</li> <li>• The worst-case outcome is that it would earn £180,000 which would still cover the cost of £100,000 so it is also a fairly low-risk option. Even if the RAC do not require evidence of the success of a project they have funded, it may help with future requests if EAG can show that previous grants have been used successfully.</li> <li>• However, it does little more than remedy existing difficulties – that is, it may prevent a drop in income resulting from people having problems with the current website, but it brings little in the way of growth, and would be expected to contribute a net gain of only £134,000 over the next two years.</li> <li>• But, given the economic picture, an improvement that requires low up-front investment (or none, if the grant covers it), may be the most palatable to Trustees at present.</li> </ul> <p>Option 2</p> <ul style="list-style-type: none"> <li>• Although the upfront cost is four times as expensive as option 1, this option also delivers far greater growth, providing an expected gain of £788 000 over the next two years, without</li> </ul>			
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	<p>taking up the option of the premium analytics package.</p> <ul style="list-style-type: none"> <li>• Even the worst case outcome suggests a net gain of £1 080 000 - £400 000 = £680 000 over the next two years, without taking up the option of the premium analytics package.</li> <li>• The optional extra premium analytics package offers a valuable growth option, which, if the money were available, would provide a chance to make the most of the data available and so improve revenues still further in the longer term, with a forecast expected return of £880,000.</li> <li>• However, spending the extra £150 000 now on the premium analytics package is a risk – if the analytics package does not generate actionable insights, the money will have been wasted.</li> <li>• However, from a purely financial perspective, and if the estimates are reliable, then spending the additional £150 000 on the premium analytics package now would make sense: <ul style="list-style-type: none"> <li>○ It would allow EAG to still make a profit over the next 12 months but maintain the extra growth option in a year's time.</li> <li>○ If the option is exercised, the expected net additional income in the following year of £242,000 may not seem especially high, but this is only one year's income, and if the market continues to grow, it could produce significant benefits in later years.</li> <li>○ With the premium data analytics systems in place, EAG would be better placed to develop further in future – see the conclusion below.</li> <li>○ Even assuming worst-case income growth in both years, and full expenditure on the growth option, there would still be a net total income of £700 000.</li> </ul> </li> <li>• Furthermore, the trend towards digital is expected to continue, and as business becomes more data driven, it will be essential</li> </ul>			
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	<p>to have strong data analytics capabilities. Failing to build them in now (by selecting Option 1 or the improved upgrade only under Option 2) could simply mean needing to spend even more later.</p> <ul style="list-style-type: none"> <li>Assuming therefore that the estimates are realistic, the only reason therefore not to adopt Option 2, with the premium analytics package add-on, is if EAG is not given sufficient funds by the RAC to afford it and cannot find sufficient, affordable finance from elsewhere.</li> </ul> <p>Option 3</p> <ul style="list-style-type: none"> <li>This offers huge potential for EAC as it allows them to develop the new income stream associated with online exhibitions but it comes at a significant extra cost.</li> <li>Because of the higher cost, the net expected income from this Option (ignoring the new income stream) is actually lower than with Option 2. And if the optimistic predictions about the resulting income growth turn out to be wrong, then it could be lower still.</li> <li>Further, the new income stream is completely unknown, and the estimates are therefore inevitably less reliable, and may fail to bring about the expected additional £575,000 revenue per year.</li> <li>Online exhibitions are an important potential growth area for EAG generally and may well be worth developing, but it should be borne in mind that this is not the only route to achieving this goal. EAG had a very successful online exhibition (Light and Power) during lockdown by working with external providers We.B.Art. Presumably they could continue to take this approach for a while longer until the financial situation improves. Therefore, to fairly assess the three options, it is important that any net revenues that could potentially be earned from taking this approach are deducted from the additional income stream shown here.</li> </ul> <p>Conclusions</p> <ul style="list-style-type: none"> <li>Whilst Option 3 is unequivocally likely to be the most profitable option, it is also based on the most optimistic estimates, and may fail to deliver the hoped-for benefits.</li> </ul>			
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	<ul style="list-style-type: none"> <li>• It is also a huge ask from the RAC and may well be turned down. Other funding sources (such as a bank loan) may be considered, although this would bring its own risks and may be unwise with the EAG's reserves depleted and current liquidity situation.</li> <li>• It would be worth talking to the two suppliers to see if a middle ground can be found between options 2 and 3. What would be ideal would be if the type of growth option offered in Option 2 were also to be available for the online streaming functionality. If the hoped-for revenue increases are achieved, it may then be possible for the EAG to pay for the additional functionality out of the funds raised.</li> </ul>			
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