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This report is intended to assess the company of its macro-environment, competitive dynamics, and its intention strategy.

Its financial statements will also be analysed through ratio, common-base, and percentage analysis with the objective of providing a recommendation as to its investment desirability. EXECUTIVE SUMMARY Katmandu Holdings Limited is a chain of retail stores that sells outdoor clothing equipment for travel and adventure with a product breakdown of approximately 60% apparel and 40% equipment, and its operation and market so far is concentrated in Australia, New Zealand, and the United Kingdom. The report is going to examine Katmandu macro-environment and competitive strategies as well as its financial reference for the purpose of providing an assessment over its desirability as an investment opportunity. The PEST analysis of Katmandu Holdings has shown New Zealand government as being significant political influence, with an economy that is conducive for business activity as a result of favorable interest rate, low inflation rate, and continuous economic growth with moderate threat of unfavorable currency exchange rate. The social aspects recognized are the New Zealand people's DID-mentality and tendencies of resourcefulness and self-sufficiency that naturally leads to predisposition to entrepreneurship, and New Zealand's heritage of outdoor lifestyles due to the country's unique environment.

Technologically, Katmandu specifically and New Zealand in general has high level of innovation and significant research tradition that are essential in competing in this kind of business venture. The firm's competitive dynamics is such where the various competitors utilize a mixture of different strategies to position themselves in the market in terms of product range and sales

strategy, with relatively low threat of new entrants and iterate threat of substitutes, resulting in relatively high level of buyer power but with supplier power that is, on the other hand, relatively low. Katmandu competition strategy emphasis on a mixture of cost leadership and differentiation strategies through its product offerings and excellent value-for-money, its signature large-discounts clearance sales, as well as its wide product range and extensive distribution channels by way of its outlet chains. Katmandu financial analysis indicates good profitability and financially healthy in the short-term in terms of its liquidity and leverage, showing low reliance on debt to insane its activities and ability to pay dividends and/or repay debt without exposing itself to any risk. The company's asset utilization also shows effective use of its assets. In terms of share Katmandu is also doing very well, with increasing basic earnings per ordinary share and fair value or slight undervaluation by the market which indicates acceptable market confidence in the company.

Dividend yields also increased significantly over the periods, signifying very good return for investment with the likelihood of further increases in the future. All above analysis indicate thatThe PEST analysis will assess the political, economic, social, and technological factors that contribute to the business environment that Katmandu Holdings Limited is trading in. Political Factor The New Zealand government in recent times has become proactive in encouraging growth of domestic enterprises and finding export markets for them. This arguably spurred on since the major restructuring of the New Zealand economies in the early ass, forced by the changing economic conditions of the time after the oil crisis of the late ass (URBAN, 2007, Para.

0) and the legacy of heavily regulated economy created after the great depression of the ass that was too cumbersome and sluggish to respond to global economic competition (Singleton, 2010, Para. 7). The successive governments elected since the 1984 election brought about significant and sweeping changes to the isolationist and protectionist economic policy of New Zealand (Singleton, 2010, Para.

22) that transformed the country economic landscape, which in the long term improved New Sealant's competitiveness in the global stage and increased average New Slanderer' economic wellbeing (Singleton, 2010, Para. 8) . The economic policies implemented resulted in major restructuring of the economy with significant economic deregulation that opened up many industries to intention, and removed labor force and traditional industries' economic protection, among others (Singleton, 2010, Para. 22). While the changes were painful, they streamlined the economy to make it fit for global competition and the new economic environment fostered industries that became international players oriented towards global export (Singleton, 2010, Para. 6).

Therefore, the accumulated efforts of successive New Zealand governments in the last 3 decades to transform the economy and continuing implementation of economic policies and tireless lobbying for export markets for New Zealand products have created inductive economic environment that sustains Katmandu in its operations. Economic Factor Interest rates, exchange rates, inflation rate, and economic growth are the important economic variables here. The interest rate determines the cost of borrowing

for firms and New Zealand has had a decreasing trend over the last 26 years, making loans a much cheaper financing options compared to five few years ago, at generally under 4% (Bank-NZ, 2013, Para.

1). Meanwhile, the exchange rate determines the real value of exports in terms of New Zealand currency and is the top concern for NZ exporters as it erodes profit earned from exports when exchange rates are high (Cunningham, Para. ), a fact that doesn't help New Zealand exporters as the 5-year trend has shown a steady increase of the NZ dollar value since 2009 (NZ Force, n. D).

Inflation rate determine the prices of goods and since 2000, it has averaged 2. 7% with the government aiming to keep it between 1% to 3% (URBAN, n. D.

). Economic growth refers to the increase of the nation's real gross domestic products and since 2010, New Zealand has had a trend of increasing economic growth averaging 0. 47% (Trading Economics, 2013). Some of these variables also affect each other. For example, increasing domestic prices of a country traded goods through inflation may affect its international competitiveness unless the exchange rates also adjusts, thereby offsetting any adverse effects brought about by those price changes in the international market (Chatterer & Michelin, 1999, p. 1). It can be seen that Katmandu economic environment is one with a trend of low and stable interest rates as the cost of borrowing, manageable rate of inflation, and continuous economic growth with a moderate threat of currency exchange rate volatility that deeds careful attention for.

Social Factor There are 2 social factors that have been identified. First is New Zealand's heritage of outdoor lifestyles fueled by the adventurous spirits of New Zealanders, ignited and sustained by the country's unique environment (Sport New Zealand, 2009, p. 2) and secondly, the values of self-dependence, resourcefulness, and a "DIY-mentality" characteristic of Kiwis' psyche (Smock, n. D. , Para. 4 & 7). The first factor explains the demand side of the economic equation where the social value of outdoor lifestyle has imbued the New Zealand population with specific need for outdoor equipment and apparel that Katmandu was destined to satisfy (Reese-Jones, 2005, p. 17), The second factor describes the supply side of the economic equation where the values of self-dependence, resourcefulness, and Do-it-Yourself predisposed Kiwis to be innovative and entrepreneurial, enabling them to devise business ventures like Katmandu .

Both factors together contribute into Katmandu success, building on its already existing domestic demand fueled by signature Kiwi innovation and entrepreneurial skills. Technological Factor While Katmandu started with a humble beginning with just a sewing machine in a back room of someone's flat, today's outdoor equipment and apparel industry is more technologically laden and innovative, with a distinct departure from the traditional focus on fabric technology to be supplanted with the approach of fully integrated multi-material product systems (Reese-Jones, 2005, p. ), combining different materials to come up with products that create market edge through technical innovation (Reese-Jones, 2005, p. 10). A quick glance through Katmandu product catalogue shows a number of internally-produced specific materials like Altair (Trademarked, n. ), as well as more well-known 3rd

party-supplied materials, such as the water-resistant Gore-Tex (Katmandu Holdings, 2013).

Hence, it can be seen that Katmandu Holdings utilizes moderate level of technology both internally-developed as well as partnering with other manufacturers for specific needs. COMPETITIVE DYNAMICS IN THE INDUSTRY To assess the industry competitive dynamics, Porter's five forces analysis has been used as the framework and applied to Katmandu Holdings Limited. Rivalry among Existing Firms There are several numbers of outdoor clothing and equipment stores in New Zealand, both domestic and international manufacturers. While international competitors like North Face have to be acknowledged, domestic competitors are the main focus of attention. Firstly is Maniac, the one that seems to almost directly compete with Katmandu, though noticeably smaller with the number of outlets of only 23 Just in New Zealand, with international sales through wholesale distributors in Japan, Europe as a whole, and the United Kingdom (Maniac, 2013). It is one of the oldest New Zealand based retailer firm and had been profitable for last three years and looking for opportunities for expansion as well (Togo Daily Times, 2011 Para 4) ND it sells similar varieties of products to Katmandu. Another competitor is Swags Adventure that seems to concentrate exclusively on highly durable, quality apparel and gear.

All three utilizes retail strategy through their extensive retail chains, with Maniac noticeably having smaller number of outlets compared to Katmandu and Swags. While both Maniac and Katmandu employ similar strategy of offering good quality for money and largely similar product range, Swags

seems to opt for competitive advantage through product specialization (concentrating on narrower product range) while also incorporating a broader range of outdoor activity that also includes farming and hunting apparels, and greater emphasis on product durability, technological innovation and good customer relations (Swags, n. D. ).

**Threat of New Entrants** The threat of new entrants to compete with outdoor clothing retailers such as Katmandu Holdings Ltd is generally quite low, at least domestically because it requires sizeable capital investment, a level of technological expertise, and shrewd marketing practices that can compete with the already existing players with their established distribution channels. For example, Katmandu Holdings had expanded their business by successfully opening 124 stores with continuing investment/ expansion drive in the future, a formidable force to compete for new firms. A level of technological expertise is also required and, with patents and rights associated with particular technologies, it may be difficult or expensive to acquire similar technologies to be able to compete on the same level (Reese-Jones, 2005, p.

2). Furthermore, extensive experience in the field in terms of retail strategy and accumulated technological innovations may also put new entrants at further disadvantage. These barriers are beneficial to the existing companies who already operate in the industry by protecting their existing business from new competitors.

**Threat of Substitutes** In Porter's model, substitute products refer to the products offered by other manufacturers instead of Katmandu.



The threat of substitutes to Katmandu products, such as their backpacks, is obviously backpacks made by other outdoor clothing and equipment manufacturer; like its domestic competitors, Maniac (Maniac, 2013) and the international brand, North Face. Katmandu backpacks (as well as other products) are known to be very reasonable in terms of prices but Maniac is also known for its excellent value-for-money in term of quality. It can be said therefore (also accounting for competition from international competitors), that the threat of substitute is moderate, with the existence of a few other substitutes available to the consumers from both domestic and international manufacturers. Buyer Power Buyer power relates to the relative number of buyer relative to the seller in a particular industry, enabling customers to influence the seller like making changes in the price of goods. In the case of Katmandu, the customer possess great power of arrainging because of the low switching cost and the existence of several clothing retail stores in the market which offer substitute products to Katmandu, such as Maniac, Bivouac, and others. Supplier Power Supplier power to Katmandu is relatively low because Katmandu (with the exception of specialized fabric, such as Gore-Tex) seems to manufacture a large part of their own materials in-house.

With their recent outsourcing to China, it is possible that they may have used 3rd-party suppliers in a small number of their products to supply materials but these materials are non-exclusive and may be obtained from other suppliers. Furthermore, they mainly sell their own products rather than selling finished products made by other suppliers (noticeable exceptions are their hiking shoes and small equipment, such as hiking lights and toiletries

packs). There are only few products from other different brands in the stores of Katmandu and they are positioned to complement their main line of products. All of these indicate that supplier power seems to be relatively low. In summary, the Porter's analysis of Katmandu shows that the company's capability to sustain itself in the market is relatively high because of low level of threat of new entrants to the company, iterate level of threat of substitutes, generally low power of supplier, but rather high level of buyer power. High buyer power can be somewhat managed by continuing to hone the company's comparative advantage over other com with products that meet customers' demands the most in prices that are c as well as cultivating brand loyalty through advertising, sponsorship, and c loyalty programs.

Being able to do that in the long run will make Isthmian continue to generate relatively high level of profitability. COMPETITION STAR Every firm establishes distinguished business strategies to differentiate the from their competitors. The Katmandu 2012 annual report (2012, p. ) m the following strategies to focus for company growth: Product Differentiate strategy: enhance product offering, entrenching new brand identity . Impair existing store network: The improvement of existing stores through renovate rearrangement, to support their on-going market penetration. Continuing roll-out in Australia and new Zealand: The company focuses to have 170 SST Australia and New Zealand within the next three years. Growing the Sum Company's target of 1 million members by the year 2015.

Developing and g online and digital channel capabilities: Digital retailing would be important many looked to expand into international markets. From

these strategic planning goals, it can be seen that Katmandu MPH mixture of cost leadership and differentiation strategies through its proud that have excellent value-for-money, its signature large-discounts clearance well as its wide product range and extensive distribution channels by way outlet chains.

FINANCIAL ANALYSIS PROFITABILITY/EARNING CAPACITY Mark-up The term mark-up refers to the amount added on top of cost for the goods overhead and to allow for profit, calculated by dividing gross profit with the corresponding cost of the sales (Smart, Awn, & Baxter, 2012, p.

5). The figures of 2010 and 2012 obtained from ratio analysis are 171. 55% and 172 showing stable figures with minimal changes, indicating that sales revenue been generally in stable proportion to the cost of sales over the periods. T supported by common-size analysis that shows relatively stable figures of sales as a proportion of sales revenue, with 36.

83% in 2010 to 36. 75% by 2 However, percentage change analysis also shows that sales revenue is some stagnant through that period and not growing, with a slight tendency to De shown by 0. 4% drop between 2010 and 2012, whereas costs of sales incur % over the same period, meaning that product costs are getting higher at is faster than the growth of sales.

It needs to be mentioned also that 2011 somewhat out of ordinary high figure for mark-up, with ratio analysis prod high figure of 190. 02%.

Common-size analysis indicated what seemed to b decrease in cost of sales in proportion to sales as partly contributing to HTH by around 2. 3% on average compared to the periods preceding and follows according to the common-size financial analysis, further strengthened with percentage-

change analysis that recorded 1.3% lower increase of cost of or 2011 compared to the preceding period.

What seemed to be the biggest contributor to the high mark-up figure for 2011 however, is the significantly percentage of sales increase for that period of 24.54% compared to just 14.02% in the year before, as discerned from the percentage-change analysis.

Return on Total Assets Return on Total Assets measures a company's earnings before interest and taxes against its total net assets and is an indicator of how effectively a company is using its assets to generate earnings before financial obligations must be paid (Smart, Awn, & Baxter, 2012, p. 06). Ratio analysis has recorded a trend of significant increase in the returns on total assets from 6.88% in 2010 to 13.71% by 2012. The percentage-change analysis has shown persistent and continued increase in the amount of total assets over the period, starting from 2010 with negative growth of -8.

58% to positive growth of 9.69% by 2012 that has been a result of mainly increased inventory and intangible assets. But it has also recorded that profit before tax figures have fallen from 54.27% growth in 2010 to -10.65% by 2012.

Return on Equity Return on Equity is the amount of net income as a percentage of shareholders equity or it measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested (Smart, Awn, & Baxter, 2012, p. 306). The ratio

analysis shows the figure to have increased significantly from 3.93% in the year 2010 to 12.

46% in the year 2012, an increase of more than 3 times the original figure. This has resulted from roughly similar level of equity over the periods, with percentage analysis showing miniscule change of just 0.3% between 2010 and 2012. This signifies a trend of improving returns for roughly the same amount of equity invested over the years. STABILITY - LIQUIDITY Liquidity measures the extent to which a corporation or the other entity can quickly liquidate assets and cover short-term liabilities (Smart, Awn, & Baxter, 2012, p. 287) and Working Capital is used to measure a business ability to meet its short term commitments (Smart, Awn, & Baxter, 2012, p. 292). These figures therefore, assesses the company's short-term condition.

Working Capital Since 2010, Katmandu working capital have steadily been increasing from \$20,048,000 in 2010 to \$39,901 by 2012, mainly attributed to the significant increase in current assets by around 30% from 2010 to 2012 complemented with significantly increasing current liabilities over the period of 2010-2011 of 46.82% and a much smaller percentage of 1.37% by 2012, according to percentage analysis. This growth indicates a positive sign of company growth, especially in the short-term, as more capital is put into the business to expand operation and more than cover short-term obligations. These figures indicate a stable company that is more than able to pay for its short-term liabilities as they become due. Current Ratio Current ratio indicates company's ability to pay its short term obligations (Smart, Awn, & Baxter, 2012, p. 287).

The current ratio of Katmandu holdings Ltd increases each year since 2010 according to the ratio analysis, from 1.77 in 2010 to 2.03 by 2012. This higher figure indicates increasing availability of funds to more than cover their short-term commitments. Liquidity Ratio Liquidity ratio measures the liquid assets relative to current liabilities (Smart, Awn, & Baxter, 2012, p. 87) where the figure reached 0.

33 in the year 2011 and has been gradually decreasing in the following years to 0.14 by 2012. This is due to the less availability of physical cash and cash equivalent assets with Katmandu holdings Ltd. In those years, as can be seen in the large negative figures in the percentage analysis of the cash and cash equivalents account. A ratio of less than 1 implies reliance on inventories and other form current assets for the company to liquidate short-term obligations and may not mean higher risk of insolvency. STABILITY - LEVERAGE Leverage measures the business long term solvency or the ability of the business to meet all its liabilities (Smart, Awn, & Baxter, 2012, p. 295). Debt to Equity Ratio Debt to equity ratio measures the proportion of financing long-term assets through debt financing (Smart, Awn, & Baxter, 2012, p.

297). Katmandu ratio analysis seems to be stable between 0.33 to 0.34 from 2010 to 2012. This low ratio implies that only a small proportion of long-term assets are financed by debt. Times Interest Earned This ratio is a measure of protection that the creditors have from defaults on interest payments (Smart, Awn, & Baxter, 2012, p.

297). In the year 2011 and 2012, the figure is stable at 13 to 14, with 2010 posting a figure of 6. But in the year 2010 time's interest earned is only 6, likely due to the company's small profits in that period impaired to the succeeding periods. The high net profit figures in the later periods improve the ratio significantly, indicating that Katmandu holdings Ltd. S more than capable to meet their interest payments, thereby increasing the creditors' protection from interest payment defaults. Free Cash Flow This figure measures how much company earns from the business after deducting the capital expenditures (Smart, Awn, & Baxter, 2012, p. 315). In the year 2012 the cash flow amount declined comparing to the year 2011 and 2010.

Cash flow amount the year 2010, 2011 and 2012 \$ \$ and \$ respectively. The decrease in the year 2012 is due to high investment on APE and intangible assets of total worth \$ 291 The figures posted are all positive, with rather erratic numbers over the period. It can be said thus, that while the dividend paid to each share holders in both 2011 and 2012 is the same at \$0.

10/share, this figure shows that the positive cash flows means that Katmandu can pay dividends and/or repay debt without exposing itself to any risk. ASSET UTILIZATION The trend of inventory turnover is slightly decreasing in every year. Inventory Turnover means how many times the inventory in Katmandu is sold and replaced over a period.

Inventory turnover is one measure of a company's performance and financial health. Low inventory turnovers generally mean the company is holding too much inventory compared to its sales. The most common cause of decreasing inventory turnover is a decrease in sales. In the future when the

company increases the sales, there will be an increase in the inventory turnover of the company. The trend of the days sales in inventory is increasing. The days sales in inventory is high when the inventory turnover is low it's a way to measure the average amount of time that it takes for a company to convert its inventory into sales.

The company improves the sales in future there will be a decrease in the days sales of inventory. The accounts receivable turnover and the average collection period ratios describes about the time taken in the sales made until the cash has been collected. The turnover of the Katmandu holdings has been increased by 22. 83% in 2011 again the turnover increases to 118. 83% in 2012.

The high value of turnover explains about the success of collecting cash in Katmandu holdings. But on the other side the average collection period is declining due to the trend of increasing sales. The turnover in property, plant and equipment productivity the value of the ratio has been decreased due to the inefficient use of assets in the company. The ratio of Katmandu holdings indicates that the asset was not properly utilized when compared to the ratios of previous years. According to the usage of assets in Katmandu the ratios has been analyses. The reason for the decreased APE is due to the less usage of assets in company and these assets can be utilized well in the future periods. The turnover from the total assets explains about the generation of total sales by using the total sets of the company. The company which have high asset turnover tends to lower profit margin.



The asset turnover of the Katmandu holdings are in the increasing process and it indicates about the lower profit margin of the company. Asset turnover measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. The assets in Katmandu are being used properly. By the overall view of asset utilization in Katmandu holdings is going in a smooth flow. And it is good for an investor for investing into Katmandu holdings. MARKET- RELATED PERFORMANCE Basic Earnings per Ordinary Share Basic earnings per ordinary share is a rough measurement of the amount of profit that can be allocated to each ordinary share.

Ratio analysis has showed a trend of significant increase in terms of Katmandu basic earnings per ordinary shares, from 0.3 cents per share in 2010 to 17.4 cents per share in 2012, a fantastic jump of over 6,150% in the last 3 years. A factor that is quite often overlooked however, is the amount of equity with which the earnings was possible. Two companies may have similar figures of basic earnings per ordinary share but the one with less equity means less amount needing to be invested to generate similar earnings and hence, a more efficient company in terms of its capital usage.

Unfortunately, no financial report figures from Katmandu competitors like Maniac or Swags were available for comparison but the continuing trend of increased earnings per share and the fantastic jump in which these figures have been recorded in the last 3 years seem to indicate Katmandu as a good investment opportunity. PEE Ratio The PEE ratio compares share market price with the earnings per share to analyses the market's share valuation of

a particular company's share relative to that company's actual income (Investigated, n. D.

, Para. 1). According to the ratio analysis, the company has a PEE ratio of 9.14 as of 2012.

The 2010 figure was much higher, of 683.33, with 2011 figure of 11.28. The high figure of 2010 was due to the very small earnings per share in comparison to the market share price of similar period, generally indicating the market's optimism for the company's earning potential despite low initial earnings figure. It can be seen that the company's PEE ratio seems to have leveled somewhere between 9 to 11, which means that the shares may be considered to be fair value or slightly undervalued by the market. Dividend Yield Dividend yield calculates how much a company pays its shareholders in dividends each year as a proportion to its share price (Smart, Awn, & Baxter, 2012, p.

309). The 2010-2012 figures show an increasing trend from 3.41% in 2010 to 6.29% by 2012, almost twice the amount. This signifies very good return for investment with the likelihood of further increases the future.

**CONCLUSION & RECOMMENDATION** To conclude, the PEST analysis of Katmandu Holdings has shown that the New Zealand government has politically influenced the creation of a business environment that helps businesses like Katmandu to exist through its proactive efforts in nurturing domestic entrepreneurial business activity and pursuing export markets for New Zealand.

The New Zealand's economic environment was also conducive, with low and stable interest rates in the last 26 years resulting in low cost of borrowing, the manageable rate of inflation over the last 5 years, and the continuous economic growth since 2010, though moderate threat of currency exchange rate volatility affects export-oriented firms like Katmandu significantly.

Socially, the New Zealand people's DID-mentality and tendencies of resourcefulness and self-sufficiency naturally leads to predisposition to entrepreneurship, coupled with New Zealand's heritage of outdoor lifestyles fueled by the adventurous spirits of New Zealand that is ignited and sustained by the country unique environment. Technologically, Katmandu specifically and New Zealand in general has high level of innovation and significant research tradition that are essential in competing in this kind of business venture.

Concluding the firm's competitive dynamics, the various competitors utilize a mixture of different strategies to position themselves in the market in terms of product range and sales strategy, with relatively low threat of new entrants as it requires sizeable UAPITA investment, a level of technological expertise, and shrewd marketing practices. Threat of substitute is moderate due to the existence of a few other manufacturers both domestic and international that offer similar products. As a result, the competition has high level of buyer power due to the many competitors, as well as the low cost of switching between them. Supplier power on the other hand, is relatively low due to the tendencies of Katmandu and similar companies to develop their own technologies for their materials, and the relatively small utilization of 3rd-arty material products and/or technology.

Katmandu competition strategy emphasis on a mixture of cost leadership and differentiation strategies through its product offerings that have excellent value-for- money, its signature large-discounts clearance sales, as well as its wide product range and extensive distribution channels by way of its outlet chains. Katmandu financial analysis indicates good profitability, with healthy mark-up figures, increasing returns on total assets and on equity. The company's short-term financial health in terms of its liquidity is also good, with increasing amount of irking capital and current ratio; liquidity ratio is rather low though is not a cause for concern with the level of current assets available.