10-2 SUPER CLUB STORES

Super Club Stores operates 253 membership warehouse stores in the United States, Europe, and Asia. The company offers low prices on a limited selection of household and grocery products. In the past year, sales increased by approximately 7.5 percent and net earnings increased by 11 percent. The company opened only two stores in 2002 and 2003 and closed one of its stores due to poor performance.

Thomas Moreland and Benson Hunt are on the board of directors of Super Club and serve on the company's compensation committee. At a recent lunch meeting, they discussed the company's performance (see Table 1 for a balance sheet and an income statement). Both were pleased with the increase in profit, and decided to recommend a contract extension and a substantial six-figure bonus for the company's CEO. They anticipated, however, that the third member of the compensation committee, Sara Nelson, would object to the bonus. Sara believes that accounting profit is a poor measure of *future* firm performance and, in her opinion, the company should be focused on what it is doing today to create *future* value for shareholders. She has also pointed out that, although the company showed quarterly profit increases, its stock price remained flat.

Required

a. To prepare for an upcoming board meeting, Sara has asked you to evaluate financial performance for *2002 and 2003* taking into account both the level of investment and the cost of capital. Specifically, she would like you to calculate the level of profit (loss) that was earned in excess of the amount required given the investment in the company. Assume that the cost of capital is 12 percent. Is it clear that the company has had superior financial performance?

b. In fiscal 2004, the CEO of Super Club Stores retired. His successor is concerned that warehouse managers do not understand how their actions are linked to the company's strategy and how they can affect future firm value. In his opinion, while monthly earnings are important, managers are focused almost exclusively on how their actions affect these numbers.

Suggest a performance measurement technique that can be used to address the new CEO's concerns.

Table 1
Comparative Income Statements and Balance Sheets for 2003 and 2002

In Thousands	2003	2002
Sales	$17,123,531	$15,922,891
Merchandise costs	13,120,054	12,175,606
Operating, general and administrative	3,196,889	2,998,366
Rent	221,057	218,857
Depreciation and amortization	209,614	192,722
Interest expense	65,784	58,806
Total	16,813,398	15,644,357
Earnings before taxes bases on income	310,133	278,534
Taxes based on income	108,547	97,487
Net Earnings	$ 201,586	$ 181,047
Assets		
Cash and temporary investments	$ 51,510	$ 57,209
Receivables	215,414	204,062
Inventories	1,742,854	1,403,626
Prepaid and other current assets	119,431	114,049
Total current assets	2,129,209	1,778,946
Land	181,487	134,731
Buildings and equipment (net)	501,895	428,478
	683,382	563,209
Total assets	$ 2,812,591	$ 2,342,155
Liabilities		
Accounts payable	$ 586,248	$ 524,287
Current portion of long-term debt	35,730	57,233
Accrued income taxes	89,124	69,783
Total current liabilities	711,102	651,303
Long-term debt	786,570	677,842
Total liabilities	1,497,672	1,329,145
Shareowners' equity		
Common stock	771,286	670,963
Retained earnings	543,633	342,047
Total shareholder's equity	1,314,919	1,013,010
Total liabilities and shareowners' equity	$ 2,812,591	$ 2,342,155