

TIP 14 - Confectioners, Tobacconists and Newsagents (CTNs)

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Warning

These notes are not intended to provide an exhaustive or definitive picture. Any tactical tips must be treated with a 'health warning' as the BIU cannot test or validate theories or ideas submitted to it, but merely supplies information to be used with **common sense and discretion**.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.
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Links to the Internet

There are a number of **references to Internet** addresses scattered throughout this note. These are not linked and need to be accessed separately from this TIP.

Reference to commercial organisations and products

This TIP may contain references to commercial organisations, together with reference to specific products or services. Please note these are included for example purposes only and are not endorsements of the organisations, products and services.

This TIP may also contain information or statements from external Websites. Links to non-HMRC Internet sites do not imply any official endorsement of or responsibility for the validity of the information, data or products presented. The sole purpose of links to other sites is to indicate further information available on related topics.

Introduction

Due to the nature of the trade covered in this TIP there are references throughout to commercial organisations such as; wholesalers and suppliers, together with reference to specific products or services. Please note these are included for example purposes only and are not endorsements of the organisations or products and services.

Over recent years the numbers of independent CTNs has fallen greatly, due to not only increased competition from supermarkets, convenience stores and petrol stations, but also the specialist multiple chains such as; Forbouys and United News Shops have increased their share of the market. According to research carried out by the sector there are currently 1965 multiples and 3152 specialist independent CTNs across the UK (2005).

National Chains, regional chains and independent retailers make up the CTN trading sector. Outlets can range from modern premises on shopping parades to corner shops, city centre kiosks and small local shops in isolated rural communities. Town centre premises often provide for more trade than an outlet in a residential area. Stores are usually small, typically under 280 sq. m / 3000 sq. ft. in size, stocking a range of specialist products. Many outlets also have housing or a flat above the premises which the proprietor can sometimes occupy themselves or to provide further income rent the facilities out.

A typical CTN is usually a single outlet normally trading week days and weekends, 364 days of the year with opening hours from very early in the morning that is 6.00 a.m. often, until 6.00p.m or 7.00 p.m. in the evening. CTN outlets are usually at their busiest on Saturdays with customers purchasing National Lottery Tickets and children buying confectionery items and drinks.

It is important when reviewing a business to establish the location and vicinity in which it operates, for example, if the outlet is situated near a work place or industrial site, takings may be reduced at weekends if customers are predominately workers, from the surrounding area. CTNs often employ part time staff as sales assistants and young people who provide newspaper and magazine home delivery services for which, the proprietor makes a moderate charge to customers.

In many CTN businesses the core products of confectionery, tobacco, newspapers and magazines typically account for 60% of the CTN sales. Together, with a reduction in tobacco sales and profit margins on newspaper retailing eroding, many CTNs have diversified into greeting cards, 'food - to go', sandwiches, chilled soft drinks and milk, snacks, PayPoint and National Lottery ticket sales. Sources indicate that in 2005 more than 50% of CTN sales came from convenience products and not from newspapers or magazines.

The miscellaneous other goods offered by CTNs can encompass a wide range of seasonal items such as; fireworks around 5 November. These have long been a regular feature, although undoubtedly, sales have declined in recent years as more people have favoured organised firework displays and supermarkets now offer bumper packs of fireworks for sale. Christmas and Halloween products are also popular items of sale.

Depending on local needs and competition, diversification into post office sales and services or off-licenses may also be a feature in some stores. Video/DVD hire or sale and photocopying facilities are particularly popular and are frequently seen in outlets.

Benefits are often obtained by becoming a retail member of a trade association which may include, cost savings and discounts on supplies of products and assistance with point of sales displays, of which The National Federation of Retail Newsagents (NFRN) is the largest trade association in this sector.

See Appendix 5 for other trade associations within this sector.

Product Mix

The majority of CTN sales are over the counter, retail cash sales although, credit is sometimes offered to regular customers. Advertisements, promotional literature and posters placed on outlet frontage, indicate that many CTN retailers over recent years, have diversified into other aspects of sales to entice customers into their stores, in order to increase profits such as; installing a National Lottery terminal, diversification into Post Office services, installing ATM machines on the premises or becoming a Pay Point Retail Agent.

As in any other retailing outlet some of the typical elements, which can affect sales and consequently influence revenue levels of CTN retailers, include; changes in passing trade, along with refurbishing the business premises.

On visiting a typical outlet you will be able to observe the fundamental items sold by CTN retailers which represent the greater part of any profits made in this sector. These fall into the following three categories:

- newspaper and magazines
- tobacco products such as; cigarettes
- confectionery items for example; chocolate bars.

Listed below are a number of reasons which can affect the retailers' profits within the above categories:

- any increase in competition from other retailers in nearby locations often affects profits in retail trades and the CTN sector is no exception
- home delivery services increasing in popularity can expand readership circulation and improve sales
- distribution of newspaper sales into garage forecourts and supermarkets who also open for purchases of Sunday newspapers, have removed the monopoly which CTNs traditionally had
- sources indicate that customer visits and add on purchases may be increased by the introduction of a shop save facility
- purchases of tobacco products diminishing due to non-smoking legislation and policies brought in by governments
- sales lost due to lower priced tobacco products, imports from abroad and bootlegging can affect traders margins
- children spending less on confectionery items, drinks and ice creams due to government health initiatives such as; diet and dentistry care and diverting their expenditure instead on purchasing mobile telephone top up cards
- as with other retail trades any market share lost to other retailers will affect margins.

Depending on the size, location and competition within the locality of the outlet, the sales mix will undoubtedly vary but a survey of newspaper retailers carried out by the Office of Fair Trading (OFT) in 2002 showed the following mix:

Product	% of Sales
Newspapers/ magazines	22
Tobacco	30
Soft Drinks	4
Confectionery	15
Alcohol	4
Stationary	6
Greeting Cards	2
Toys/games/books	5
Groceries/ provisions	12

Source OFT 2002

The sale of stationery, toys and greetings cards do not usually account for a large part of a CTN's turnover figure, but they are profitable items and may need to be taken into account. Many small toys in particular novelty items and greeting cards may be marked up by up to 100% on cost. Other toys, stationery and pens are often marked up by 50% to 60%. Minor medical items sold for example; plasters will usually be marked up at around 30%.

Family Expenditure

According to research the average UK household expenditure for 2003 -2004 was £418 per week of which £57 per week was spent on recreation which included: newspapers, books and package holidays and £2 on chocolate and confectionery.

During the period 1999 to 2002 the average weekly household expenditure on the National Lottery, which included scratch cards, ranged from £4.30 in England and Wales, £4.20 in Scotland and £3.90 in Ireland.

Household expenditure on Tobacco is shown in the table below:

Year	Total Household Expenditure £ million	Expenditure on Tobacco £ per adult
2000/01	608967	304.3
2001/02	643327	306.5
2002/03	671764	311.3
2003/04	701718	323.6

Legislation and Regulations

There is specific licensing and legislation requirements independent CTNs are subject to however, as with other businesses, compliance with general legislation is also required.

Tobacco Products Regulations 2001

All tobacco products sold in the UK carry a fiscal mark to show that UK duty has been paid. It is a criminal offence to sell unmarked cigarettes or hand-rolling tobacco.

Tobacco Advertising and Promotion Act 2002

This act bans tobacco advertising, promotion and sponsorship including the sponsorship of cultural and sporting events. Further regulations and restrict advertising at the point of sale on vending machines, were introduced in 2004.

Cigarette Lighter Refill (Safety) Regulations 1999

It is an offence for any person under 18 years of age to be supplied with cigarette lighter refill canisters containing butane or a substance with butane as a constituent.

Intoxicating Substances (Supply) Act 1985

It is an offence to supply, offer to supply to a person or person acting on the behalf of someone who is under 18 years of age; any intoxicating substance including, solvent based glue, dry cleaning fluid, marker pens or correction fluid and thinners, if there is reasonable to cause to believe the substance may be used for intoxication.

Licensing Act 2003

If alcoholic beverages are to be sold a justices' licence must be obtained and no persons under the age of 18 years of age can sell alcoholic drink or be sold alcoholic drinks.

Food Safety Act 1990

Includes labelling, safety, advertising, making up, preparation and storage of all types of food sold for human consumption.

National Lottery Regulations 1994

Covers the sale of lottery tickets. Persons under the age of 18 must not be sold tickets and the confidentiality of winners and preventing discounted sales is included in this regulation.

Fireworks Act 2003

This legislation governs the use, possession of fireworks, how they are stored and sold. Fireworks must only be sold to persons over 18 years of age and only certain types of fireworks can be supplied to the general public. Boxes of fireworks must not be split and sold separately and can only be sold for certain weeks prior and leading up to specific celebrations for example; November 5, and a few days after. Retailers must only sell fireworks which conform to British Safety Standards meeting certain noise conditions. Certain provisions under the **Explosives Act 1875** are superseded by the 2003 Act which requires registration by local authorities for wholesale and retail outlets which store or sell fireworks.

Fireworks (Safety) (Amendment) Regulations 2004

These amendments came into force on 8 June 2004 and are a comprehensive package of measures to address anti-social use of fireworks through the regulation of both use and supply. These regulations also provide for the definition of certain types of fireworks.

Working Time Regulations 1998

This ensures that workers and young people receive the basic rights and protections of working time limits, hours and rest periods. Employers must provide records to show compliance which may include pay records.

Employment of Young People

Local authority bye laws regulate the type of employment and hours worked by young people who must be over the age of 13 for example; newspaper deliveries. All news deliverers have to be registered with the local authority and permits obtained and signed by both employer and parent.

External Advertising

Traders who advertise sales or for instance the National Lottery using advertising boards, display stands or any other object placed on the public footpath, verge or carriageway outside the outlet require permission from the local authority. Contact with the local authority in the area will be necessary for specific bye laws enforced.

Application to the Local Fire Authority

To obtain a fire certificate if more than 10 people are employed elsewhere than on the ground floor of the business premises or 20 people or more are employed on the premises in total.

Registration with the Information Commissioner - Data Protection

It is a legal requirement that any business which keeps records of customers' personal information must register as a data user with the Information Commissioner, under the Data Protection Act 1998.

<http://www.informationcommissioner.gov.uk/>

Registration with the Information Commissioner -CCTV

Businesses that make use of CCTV equipment may have to register with the Information Commissioner depending on the type of system in use.

<http://www.informationcommissioner.gov.uk/>

Costs of Starting the Business

The initial capital costs for starting up a CTN business vary.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Factors such as; whether the premises are refurbished or newly built for the purpose, leased, rented or owned out right and the size and main items of business equipment and fittings, as found in many retail businesses such as; counters and displays, specialist equipment required need to be taken into account. The initial cost of setting up will vary depending on the store items required and labour costs involved along with the provisions of tills, EPOS and computer systems provided. Opening stock required for sale will also be a major consideration of the business.

If structural alterations or modifications such as; flooring or doorways are required due to compliance with fire, health and safety measures this will also generate an impact on cost.

The expense of key equipment required will include:

- electronic tills – from £150
- shelving and counter tops
- refrigeration units
- security equipment – this varies but as it is a responsibility of the proprietor to provide satisfactory systems and security procedures and it will be one of the main considerations and expenses incurred when setting up the business. On visiting the premises it will often be apparent as to the security measures put in place to combat crime and theft. The cost of these will vary depending on the type of protection required and installed on the premises which may include alarm systems, locked displays, CCTV and photo surveillance equipment, counter cache boxes for storing notes along with, security grills on doors and windows.

There are many websites which can provide an indication of equipment costs and using simple search terms such as 'security products' will locate numerous websites providing an indication of the type of product and cost a CTN might incur. These will prove useful when considering any claim to capital allowances.

Confectionery and Snacks

A number of the major manufacturers of sweets and chocolate will supply retailers direct and some CTNs obtain their supplies this way. Here are some of the main suppliers of chocolate in the UK.

- Mars Confectionery
- Cadbury Limited
- Nestle Rowntree
- Terry's Suchard
- Thorntons Plc
- Lindt & Sprungli

However, a great deal of CTNs will obtain supplies from a wholesaler or cash and carry warehouses where prices may be lower. Cash and carry outlets have the added advantage of being open for long hours, in many cases seven days a week. In addition, they do not have a minimum spending restriction and therefore, enable the CTN trader to keep stocks in the shop to a minimum. Boxed chocolates display marked seasonal peaks, in particular around Christmas time, but also around Mothers Day, St.Valentine's Day and Easter, when Easter egg sales are also a significant feature.

You may find that the business begins stocking for 'Special' occasions well before they arise, for example; Nestle` Rowntree unveiled their Easter 2006 confectionery lines in August 2005 and in competition with other manufacturers such as; Cadburys, start stocking retail outlets with products immediately after Christmas. Currently, manufacturers are trying to increase profits for CTNs by supplying the traditional sweets and confectionery items that are making a come back with customers looking for retro and old-style products for example; fizz bombs, Texan chew bars and Chewits.

Snacks

The snacking market consists of bagged snacks such as; crisps and nuts, biscuits, cakes and confectionery worth approximately £6.4bn in the UK. Although, the trend for healthier snack type foods such as; fruit and cereal bars is becoming more popular.

Retailers are often advised by manufacturers and buyers to stock up on promotional packs to provide for an increase in profits for example: 'hunt the hoops' or 'win the worlds best sports seats'. Over the Christmas period, retailers will stock up on festive ranges such as; turkey and 'Paxo' flavoured crisps usually, available on special promotion.

Nuts are a traditional part of Christmas and research indicates that 44% of annual nuts sales are made during this period with the number one consumer's choice of KP. Other brands include, Dormens, Percy Daltons and Nobby's.

Manufacturers such as; United Biscuits UK also run competitions from time to time for retailers where retailers who follow the manufacturers advice increase profits by re-arranging selling lines on fixtures, promoting best sellers to prominent positions on show and can win monetary awards usually, payable by cheque.

Below is a typical example of the type of advise suppliers may offer to retailers to operate the 'perfect' fixture:

- don't stock too many lines
- keep the range simple
- premium products should be placed at the top of fixtures
- value lines with children's sweets at the bottom so young children are able to make choices
- everyday lines in the middle
- 'multi-face' the top 10 brands where possible.

Some suppliers and manufacturers of products will recommend to retailers how the outlet should display items for sale in order to gain the most profit from items sold. Below is an example of a typical display solution:

This area of guidance has been withdrawn to protect third party data

Outers

These are the containers or boxes in which the packets/items of confectionery such as; chocolate bars are packed. Some 'outers' have strong designs in order to attract customers to purchase at point of sale for example; 'Polo Strong Mini Mints' are sold in giant Polo shaped packs containing 50 sweets per pack which are then packed in 'outers' of 20. A visit to the outlet will show many items of confectionery displayed in outers in this way for example; often seen on the top display level of sweet counters display areas is chewing gum such as; Wrigley's Extra containing 10 pellets per pack and packed in 'outers' of 20.

Rates of Mark-up

It is very difficult to generalise about rates of mark-up or profit, on return on confectionery items because there is no standard supply price. The manufacturers publish price lists which, are similar to Q rates for their products, and an example of the mark-ups - profit on return, are shown in the following table:

Product	Mark-up on cost	Profit on return
Some chocolate bars	19%	16%
Most chocolate bars	21%	17%
Tube sweets	24%	19%
Loose sweets	30%	23%
Pack sweets	29%	22%
Chewing gum	35%	26%
Ice cream (blocks)	30%	23%
Children's novelty sweets	35%	26%

Owing to competition within the trade these figures can only be used as a guide.

The rate of mark-up is affected by the source of supply as well as by the mix of confectionery goods sold. As a rough guide, however, the mark-up on cost can be estimated at around 25%. The very lowest rates of mark-up will be typically where supplies are obtained at top prices from the manufacturers.

The highest supply price shown in any manufacturers' list is the most a retailer would have to pay. However, if supplies were obtained from a cash and carry warehouse, the cost would probably be quite a bit less and therefore gross profit rates/mark up rates will be affected. Where products are sold at less than the recommended retail selling price (RRP) corresponding allowances must be made.

In conjunction with the trader's own records it may also prove worthwhile to source the Internet for information on a particular product range. See Record Examination.

Cigarettes & Tobacco

General	Stock and Credit
Bootlegging	Rate of Profit on Return
Supplies	

General

Tobacco sales, mainly cigarettes, form a substantial part of the turnover of a CTN business. Typically, the average proportion has been around 35-40% of turnover but there can be quite wide variations and there are indications that the proportion has declined in recent years.

Whilst cigarette sales tend to be relatively constant throughout the year, sales of cigars are likely to be significantly higher over the Christmas period.

From 20 December 2004 limits as to tobacco advertising at the point of sale have been regulated and the total area of any advert is restricted to A5 size of which, 30% must be taken up with a health warning. Breaches of the regulations can result in a £5000 fine or 5 months imprisonment.

Bootlegging

The illegal importation of tobacco smuggling or 'bootlegging' to avoid paying taxes is reported to have had a significant impact on the sales levels and margins of the legitimate trade. Hand-rolling tobacco is thought to be especially prevalent on the 'illegal economy market', along with other forms of tobacco which are reported to be readily obtainable at popular outlets such as pubs, clubs and car boot sales. An indication of the revenue lost in 2005 due to illegal smuggling and cross boarder shopping of tobacco products can be seen at Appendix 7.

A report issued in September 2005 of a butcher who turned to 'bootlegging' during dwindling trade, evaded more than £100,000 of tobacco duty on contraband cigarettes. HMRC officers discovered £31,000 of cash and more than 200,000 cigarettes and 100 kilos of rolling tobacco, when the trader's premises were searched.

On examination of the records it may be noticed that unusual or extraordinarily cheap brands are for sale or stocked. Details of regular hiring of vans for foreign trips may appear and tobacco products for retail without the duty paid, pack-mark may also be an indication of illegal goods for sale.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.
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Supplies

Newsagents obtain their supplies of cigarettes & tobacco direct from the manufacturer if they are able to fulfil minimum order requirements; from wholesalers or, more commonly in the case of the independent operator, from cash & carry outlets or wholesale deliverers.

The trade has a system of manufacture pricing based on the nature of the business and its turnover and there is little difference between the practices of different manufacturers. These prices are known as 'Q rates'. The 'Q rate' at which a retailer is able to obtain supplies depends mainly on the level of turnover but there are a few anomalies arising from historical ties or special relationships. At the bottom end of the scale any quantity, however small, can be obtained at Q1 rate; at the other end Q5 and Q6 are generally restricted to the largest wholesalers and supermarkets.

There is usually no price advantage in obtaining supplies direct from the producers because the Q rate charged is unlikely to be more favourable than that charged by the wholesaler. Indeed, traders can often get better terms from a wholesaler than from the producer.

Some manufacturers operate a two tier pricing structure, which is not quite as complex and depends on the order requesting 250 or 1000 outers.

Commonly, the cash and carry outlets now offer the Q5 rate to the independent retailers. Cash and carries also operate a 'house' or 'private' brand over which they have complete control. These brands are popular with customers and due to their sales success some rank as national brands, in terms of market share. For example; a wholesaler may have their own brand which, is sold at a controlled price through their own warehouses exclusively and which are retail price marked. Any profit margins will be easily calculated from the cash and carry invoice issued at the time of purchase to the retailer which details price per packet, price paid, VAT, quantity, pack size, description of item and total sales purchased.

Retailers may well purchase extra stocks during the period immediately up to the announcement of the Government's Budget, in order to boost sales for a short period after any increases in the tax duties which may occur. It is not uncommon for retailers to increase stocks at this particular time by means of purchasing bootlegged tobacco and officers should be extra vigilant in this area.

Stock and Credit

The financing of tobacco stock can be a problem because of the high cost. Where supplies are obtained from a wholesaler, the trader usually gets a period of credit from the supplier of anything up to a month; typically payment by the fourteenth day of the month following the month of delivery. Beyond this, the trader will try to avoid tying up money by keeping stocks as low as possible. The usual stock turn is four to five weeks. Some traders are able to obtain their stocks weekly, under an arrangement with a wholesaler. Increased use of cash and carry wholesalers can be advantageous to many CTN proprietors, as they can purchase their supplies in smaller quantities despite, it being on a more frequent basis but without the credit facility.

The tobacco companies and wholesalers operate a prompt settlement discount. In practice, this is not so much a discount for early payment, more as a surcharge for late payment. Prices on invoices and in 'Q rates' already take account of a prompt settlement discount of 2% on the assumption that settlement will be made by the due date.

Bonuses may also be payable, in particular to larger retailers. In many cases, payment is made in the form of cheque, six monthly or annually, or sometimes by means of vouchers that can be exchanged for goods.

Bonus payments and rebates may arise due to:

- the retailer takes part in a special promotion with an additional discount being given during the offer period
- a certain volume of stock during a specific period has been sold by the retailer or where the level of orders placed for tobacco products exceeds specified thresholds.
- opportunities to be entered into prize draws and promotions which maybe offered by the manufacturer or wholesaler
- special offer orders may include extra items free of charge.

Rate of Profit On Return

The rate of 'profit on return' that is the GPR achieved on cigarettes and tobacco is obviously linked to the "Q rate" at which they are supplied. If the retailer obtains considerable discounts or bonuses from suppliers and items are not sold to customers at a lower retail price, GPRs will increase.

The following tables shows a guide to the average percentage profit on return on purchase prices at 'Q' rates prompt settlement prices, assuming that the goods are sold at the manufacturers' recommended retail selling price.

	Q1	Q2	Q3	Q4	Q5
Small tipped	3.17	5.31	7.53	8.30	8.56
Standard tipped	2.33	4.40	6.22	6.95	7.25
King size tipped	2.59	4.60	6.45	7.15	7.44
Plain standard	3.28	5.40	7.57	8.31	8.57
Pipe tobacco	5.63	8.30	13.74	15.03	16.28
Cigars	7.42	10.70	16.13	17.11	18.34
Panatelas	7.53	10.69	16.06	17.22	18.33
Miniature cigars	7.49	10.62	15.85	16.67	18.88

If substantial volumes of tobacco products are purchased GPRs will increase for example; cigarettes purchased at Q1 rate – a small order, can range from 3% for small cigarettes to 7.5% for cigar purchases. If the same product range is purchased at Q4 or Q5 rates- substantial order GPR will increase in the region of 8% to 17%, respectively.

There is scope for variation in the gross profit rate on cigarettes depending on the 'Q' rates or wholesaler's terms involved. From a comparison of cost and sale prices the actual rates obtained by the CTN retailer can be established.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Newspapers

General	Sale or Return
The Distribution and Supply Chain	Boxing Out
Invoices	Sell Outs
Carriage Service Charges (CSC)	Handling Allowances
Minimum Entry Level (MEL)	Part Works and Stickers
Stock Control	

General

Ownership of the UK Newspaper industry is separated by the Regional and National Press. Regional newspapers are published for a region, city or county, although the 'Evening Standard' a London based newspaper is also sold outside of the UK's capital city and classed as a national newspaper along with the Scottish 'Daily Record'. Ownership is by large publishers such as; Trinity Mirror Plc and Newsquest Plc.

Categorisation of newspapers is on the basis of how frequent publication takes place:

- daily or morning
- evening
- weekly
- Sunday

And type of readership:

- popular
- quality

'News sheet' is the term used to describe a business's trade in newspapers, periodicals-weeklies, magazines-monthlies and 'one shot' issues for example; holiday editions, feature publications. Saturday is regarded in the trade as the best selling day for National papers and Saturday editions provide for the majority of supplements.

The weeklies are the strongest sector of regional press, along with free daily newspapers. The major growth area in regional press more recently, is that of the 'Metro' which is estimated to circulate more than one million copies a day.

Research shows, an increase in supplements weekly and monthly, supplied in National newspapers covering gardening, sports and food. These are designed to attract readers in order to increase sales along with special offers, vouchers for products or services, subscription offers and lottery type tickets.

The Distribution and Supply Chain

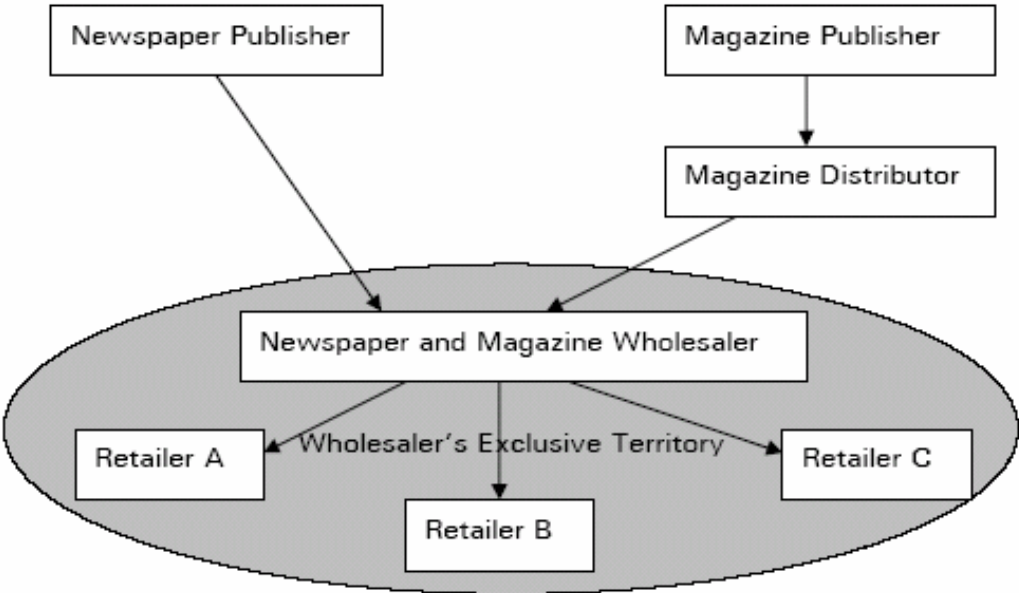
The UK newspaper supply chain has three stages:

- publisher
- wholesaler
- retailer

Newspaper publishers in the UK currently grant individual wholesalers the exclusive right to distribute a particular publisher's titles to all retailers, located in a particular territory, for a specified period of time. The publishers divide the country up into individual post - coded delivery areas and deliver the publisher's titles to a depot in or near each area.

The magazine supply chain works along a similar course but has an additional stage in the chain, via an appointed distributor such as; Marketforce, Frontline or COMAG, between the publisher and wholesaler stage. The role of magazine distributors is to gather magazines, usually from a number of different magazine publishers, and then distribute them on to wholesalers. The larger magazine publishers often own the distributors either through joint ventures with other publishers or individually.

Below is an illustrated diagram of the newspaper and magazine supply chains.



Source: Office of FairTrading 2005

Invoices

Wholesalers invoices are issued in various forms however, they are normally paid within seven days. Any invoice errors are usually shown in the credits allowed, where the retailer has until Friday of the week the invoice is received to amend any mistakes. Any vouchers or money off coupons returned in the previous week will be detailed under the credit section. The retailer requires the total retail figure shown on the invoice for internal stock purposes.

Carriage Service Charges (CSC)

Newspapers and magazines sold in the UK have a recommended retail price (RRP) printed on the cover. Retailers can alter this RRP however, in practice this rarely happens.

Wholesalers receive a share of the cover price on each newspaper or magazines sold and levy a carriage service charge (CSC) to the retailer for administration and delivering the items to the outlet. The CSC is based on bands, which are payable according to the volumes supplied. However, the multiple wholesalers apply their bands on a national basis, irrespective of the location of the retail outlet.

Some wholesalers levy a separate 'data' charge, to compensate them for the cost of complying with their contractual requirement, to supply the distributor with sales and market information. In the majority of cases however, these charges are included in the carriage service charges.

The wholesalers' charges are detailed on their delivery invoices, as a separate item. The charges are strictly additional to the purchase costs and should be reflected in the Trading Account. If instead, they are included in the Profit and Loss account, the retailer's apparent gross margin will be enhanced, with the net profit correspondingly reduced.

According to sources in 2002, CSCs ranged between £25 to £30 per week.

Minimum Entry Level (MEL)

The principal conditions relating to the MEL requirements for retailers are as follows:

- a minimum net weekly charge is set at the MEL
- the MEL for each wholesaler is published by the wholesaler at half of the average value of newspapers and invoiced weekly to existing retailers in the wholesalers' area
- only those newspapers which, the wholesaler can supply are included in the calculation
- the initial calculation is effective for two years following commencement of the agreement thereafter subject to an annual review
- if a new retailer maintains an order in excess of the MEL for at least 6 months, the wholesaler must extend SOR facilities, subject to the guaranteed minimum net weekly charge, being agreed.
- wholesalers have discretion to supply below the MEL.

When a retailer decides to sell newspapers and magazines at the store, the news wholesaler will set a minimum value of newspapers. The retailer is obliged to take this order on for a minimum of six months on a weekly basis before the Sale or Return basis (SOR) is granted.

For enquiry purposes a typical example of how this might operate is:

MEL is £370 at retail that is from Sunday to Saturday the retailer has to take £370 newspapers or £53 per day. The £53 is made up of a certain number of newspapers for example; Guardian 30, Mirror 25. The same would apply for Sunday newspapers for example; Sunday Mirror 30 News of the World 25.

Stock Control

The stock control entries in the stock control book or records are vital to successful traders. They are sometimes provided free of charge by the wholesaler.

The totals of all newspaper deliveries are counted and checked everyday against the delivery note. Any shortage of items to be delivered must be claimed from the wholesaler by 8.00 a.m. for newspapers and by 3.00 p.m. for magazines. A credit should be seen on the next week's invoice to this effect. Evening or local papers are counted in the same way as 'dailies'.

Sale or Return (SOR)

Evening regional papers are delivered direct from the producer but the rest are obtained from a wholesaler, who will make daily deliveries to the outlet. The number of copies supplied is based on the trader's own estimate of requirements but this is subject to significant supplementation through additional copies.

With the exception of MEL and specialist 'firm sale' orders, the majority of newspapers and magazines are supplied to retailers on SOR basis. The retailer is invoiced for payment within 4 days of each week's supplies. The retailer must record the number of returned copies on the return note.

Evening paper returns allowances are calculated on either an amount of the daily supply or a percentage of daily supply. This allowance also applies to any local newspapers returned.

Returns are tied and parcelled up or placed in tote boxes, indicating how many parcels are to be returned along with the retailers customer number for example; 1 of 6, 2 of 6. All returns are normally scanned but the retailers returns note must also be completed by the retailer and affixed to one of the parcels, as proof of return. The number of returns should be completed from the return's note and shown in red in the stock control book. Credit due on unsold items is given at the end of the sale period, which, in the case of monthly magazines is typically 4 - 6 weeks.

Should the retailer miss the SOR deadline for a particular item, the entire cost of that item is lost including if applicable, the VAT.

It is the wholesaler who is responsible for collection from the retailer and handling the correct returns, ensuring the appropriate retailer is credited and also arranging for recycling or disposal of the newspapers.

Boxing Out

Boxing out, is the practice of delivering more copies of a particular title than the retailer has specified on the 'standing order'. It is a promotional device employed by wholesalers in conjunction with the publishers to publicise the product and thereby increase the volume of sales.

The retailer's 'standing order' to the supplier specifies the number of each title to be delivered. Where, exceptionally, the standing order items are not on a SOR basis, any copies unsold cannot be returned to the supplier for credit. Any extra 'boxed out' copies are on SOR terms, and the retailer must retain the unsold copies until the supplier sends him a 'recall' note, upon which the retailer can return the unsold copies by a specific date. If the retailer misses the recall date for any reason, the right to the SOR terms can be lost. Where unsold copies are returned to the wholesaler, the retailer must take great care that the items are correctly packaged and labelled to ensure that full credit is obtained for them.

Some of the regional newspaper publishers supplying direct, do not allow retailers to return more than a certain percentage of the number of 'boxed out' to them. Others, calculate the number of copies that they think a retailer will sell and substitute that for the number on 'standing order'. Although, initially the extra copies are on SOR terms, if a higher level of sales is achieved, the new figure may become a new order level and may be on 'firm sale' basis only.

Sell Outs

Often traders will sell out of newspapers or weekly magazines before their off-sale date. Sell outs are adjusted by the retailer requesting further copies for the next week or months delivery and any standing order amendments are then adjusted accordingly by the wholesaler. The news wholesaler can adjust standing orders without prior consent to the retailer however, the retailer can request a standing order report at regular intervals to review and check for any amendments that require implementation.

Handling Allowances and Inserts

The colour supplements to some Sunday newspapers attract a handling allowance payable to the retailer in addition to the discount. Increasingly, however, supplements are pre-inserted, so that this source of income for the retailer is reduced.

Newsagents and CTN retailers have agreed terms for various sections of inserts and supplements in newspapers and magazines for example; property, colour magazines, sport or finance and compliance officers will need to establish the exact terms and conditions the trader is expected to comply with.

Part Works and Stickers

Retailers regard part works and sticker collections on various topics for example; Art of Calligraphy and The Premier League as good profit generators due mainly to the advertising coverage on television. However, sales on part works usually decline out after part 4 and after part 6 are then known as 'firm sales' and are not returnable to the wholesaler.

Collections of stickers, which are usually placed on the sales counter to attract customers, can be on sale for nine months or more before being recalled.

Prices of part works can vary considerably as can be seen from the vast array of TV advertisements, but generally starting at £1.99 up to £11.00.

Home Deliveries

Sources indicate that approximately 45% of newspapers are delivered to customer's homes usually by newspaper boys and girls with most retailers making a small charge to the customer for this service, depending on demand and number of papers delivered. Typical charges per household are in the region of 50p to £2 per week. This can be broken down for example; by 10p per newspaper multiplied by the number of days delivered. Home deliveries also provide the retailer with a stable base level of sales although; margins indicated are usually below counter sales.

A typical delivery round of 30 morning customers, 7 days a week could generate an additional £150 per week with an allowance for delivery round wages providing an extra profit of £20 - £30. The retailer may also gain an increase of £200 - £300 in increased 'footfall' - customers entering the outlet to pay newspaper bills and also purchasing other items in the process.

Retailers obtain free sample copies from suppliers, in order to entice new customers to take up delivery of a newspaper to their home on a regular basis. Typically, 25 copies will be supplied to deliver to potential new customers. These are sent as a free newspaper with inserts giving information to the customer of an introductory offer. The offer can be for example: half price for 4 weeks saving the customer £8 over a 4 week period. Sources indicate that for every new six day a week order, say of the Daily Mirror, the retailer earns in the region of £25 gross profit, per year.

Where home deliveries exist you should examine round sheets or cards to ensure income from delivery rounds is recorded correctly and of course expect to see a figure for debtors in the balance sheet. You should also be aware of situations of delivery drivers operating under a contract of service to pick up and deliver newspapers to various places in delivery vans, where payment is made by rounds and not by the hour, day or week. Often, contracts in this situation will be on a self-employed basis.

ESM7210 – Express and Echo Publications V Tanton provides details of a Court of Appeal decision made in 1999, where it was held that the worker was self employed and not found to be an employee.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.
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Some retailers will buy and sell newspaper delivery rounds to other retailers as a traded commodity with some of the larger multiples such as; Forbouys frequently advertising to buy rounds of other retailers.

Delivery Trolleys

Many CTNs will provide delivery trolleys to employees which, are designed to carry up to 125 kilos of newspapers at a time. However, many still provide florescent bags to enable deliveries to be carried out by boys and girls delivering papers on a bicycle. Trolleys can be purchased by the retailer for £23 plus VAT and newspaper bags at £4 per bag plus VAT.

Advertising and Distribution Services

Some distribution companies pay CTN's for delivering advertising literature. The literature is usually inserted inside newspapers by newspaper delivery girls and boys, whilst making their deliveries. These companies often require blanket coverage of an area, rather than confining distribution solely to paper deliveries.

News Wholesalers

News wholesalers, sometimes described as 'sub-distributors' are obliged to work within the industry scheme and operate a monopoly territory contracting for the sole rights to deliver each publisher's titles to the retailers situated in the delivery area. They collect the copies from the depot and deliver them to the retailer. In effect, therefore, the retailer has no choice of supplier.

The contract usually specifies that the wholesaler has to: -

- service all the retailers in the area and deliver the titles by a given hour in the morning
- supply deliveries on each day that the publisher produces a title - the contract is for a seven day delivery service
- ensure that retailers are open on each day that the titles are produced, and supply the distributor with a return of the number of each title sold that is; the number delivered less returns where SOR applies and other market information.

W H Smith, John Menzies, and Dawson News are major players in the wholesaling market supplies.

More recently, wholesalers are modernising the way in which they operate the business and with the advent of electronic communication are producing ways in which retailers are supplied with more readily available information of individual publication titles. Progression towards newspaper retailers being able to access information on deliveries to their outlets, by checking the whereabouts on screen of delivery vans, is also prevalent.

Invoices

Wholesalers invoices are issued in various forms nevertheless, they are normally paid within seven days. Any invoice errors are usually shown in the credits allowed, where the retailer has until Friday of the week the invoice is received to amend any mistakes. Any vouchers or money off coupons returned in the previous week will be detailed under the credit section. The retailer requires the total retail figure shown on the invoice for internal stock purposes.

Magazines

Sources indicate that profit margins on magazines is greater than other CTN categories such as; cigarettes and confectionery items and are in the region of 25%.

Retailers will tempt customers by placing magazines on shelves and display units in strategic marketing placements in order to increase their profits. L- displays, waterfall shelving; underside lighting and rotation of titles are just some of the fixtures and fittings that are often applied. Off the shelf units such as; hotspots-areas where customers are attracted to more often within the store, dump bins and counter display units are resourced to use up any overstock and entice customers to purchase.

Puzzle Magazines such as; Puzzler and Puzzler Wordsearch are popular purchases with female customers and retailers will often place these next to Womans Weeklies and TV listings in order to attract this segment of the retail market into dual purchases.

CTN retailers can find out the latest magazine launches in any given month, by accessing various web sites, these usually supply such information as; prices of new publications, sale date and general information on the product. For example; King Kong Official Souvenir Magazine, price £4.99 contains interviews with cast and crew of the 2005 blockbuster and 100 pages of behind the scenes access. Using these types of sites enables retailers to be ahead of any competition in the surrounding area, increasing sales and profits accordingly. Connect2U as part of the WH Smith Group is such a website and is included purely as an example.

You should examine the CTN records to ensure any increase in sales is recorded correctly in the records during the first two weeks of any month, as the majority of major monthly magazines are sold during this period.

To enable you to compare readership throughout the UK, which may give an indication to retail sales, the table below provides the Top 10 magazines by order of ranking, in different areas within the UK.

Magazine Ranking Report December 2005					
Nottingham		Oxford		Newcastle	
Ranking	Title	Ranking	Title	Ranking	Title
1	RADIO TIMES	1	OK	1	TAKE A BREAK
2	WHAT'S ON TV	2	TAKE A BREAK	2	WHAT'S ON TV
3	AD MAGS	3	AUTO TRADER	3	AD TRADER NORTH EAST
4	TAKE A BREAK	4	WHAT'S ON TV	4	OK
5	HEAT	5	HELLO	5	NOW
6	OK	6	TV TIMES	6	AUTO TRADER
7	TVTIMES	7	NOW	7	CHAT
8	NOW	8	FREE ADS	8	THAT'S LIFE
9	TV CHOICE	9	TV CHOICE	9	TV CHOICE
10	AUTO TRADER	10	WOMAN	10	TV TIMES

Customer Ordering Services

Many CTN retailers operate a customer ordering service, which can give access to large numbers of magazines that can be ordered from the wholesaler and collected by the customer from the outlet. They provide for specialist titles and part works to be obtained more easily. Customers can request for the magazine to be saved by the retailer; hence the term 'shop saves' so that no weekly or monthly edition is missed.

Top-Shelf Titles

So called because all adult magazines must be displayed on the top shelf of store display areas, out of the reach of children.

CTNs and independent retailers have approximately 70% share of the Adult market, as there is little competition because supermarkets and other stores are unlikely to stock Top - Shelf magazines. CTNs whose outlets are in an area where there is a lot of passing trade or are situated close to work premises will usually obtain higher profits from retail of the Adult sector.

The Adult sector falls within three segments:

- Adult Humour
- Adult Top - Shelf magazines of which $\frac{3}{4}$ of volume sales can be accounted for
- Gay magazines

Although the best sellers in this category will vary, it is likely to include such publications as: Escort, Private Eye, VIZ Comic, Men Only and Mayfair.

Under the NFRN Code of Practice CTN retailers should follow the following recommendations when retailing any adult material to customers:

- 'Adult Titles' should be displayed on the Top Shelf only out of the reach of children.
- 'Adult Titles' should not be sold to anyone under the age of 18 – ID should be produced if age is in question.
- 'Adult Titles' should only be obtained from genuine trade channels, as these will have been vetted by the suppliers' lawyers for compliance and legislation.
- Care and sensitivity should be applied over the display of titles with explicit front covers.

The NFRN also advises retailers to give consideration to the views of customers and are not obliged to stock any titles if they have objections on the grounds of religious, moral or other grounds.

Vouchers and Money-off Coupons

The newspaper and magazine publishers often use vouchers and money-off coupons as promotional devices. They can frequently have a significant impact on the operations of the retailer. Indications are that such coupons can represent in the region of 10% of some CTNs overall business.

Customers obtain vouchers or money-off coupons most commonly, from previously purchased publications but also in some cases direct from publishers by means of promotional mailshots and similar campaigns.

Generally, the retailer is obliged to accept vouchers or coupons tendered in connection with particular promotions and for specific publications. Coupons can be on the basis of one coupon for one publication, or on the basis that one coupon entitles the bearer to the publication for a specified period of time.

At the point where the customer presents the voucher in payment, or part-payment of an item, the voucher effectively has a cash value, and forms part of cash sales. However, the vouchers are of no financial/cash value. Their worth is only realised after they have been submitted, usually on a weekly basis to the wholesaler, who compensates the retailer by giving a refund; cash or cheque or more often by means of a credit note into the purchases account.

The method of accounting for vouchers and coupons used by the proprietor can significantly affect the trading account of the business. Alternative methods that may be found include the following:

Method A

The retailer will record the receipt of the coupons as they are received and they will be included in takings for the day.

- If the coupons are redeemed by cash or cheque then these will form part of the bank/cash reconciliation between monies banked and takings, as shown on the till rolls. This method ensures that the true gross margin on transactions is preserved.
- If the coupons are redeemed by way of a credit against future purchases from the wholesaler, then the reconciliation is difficult to achieve. In addition, the value of purchases becomes understated therefore, inflating gross margins.

Method B

The retailer does not record the receipt of coupons at the time they are received from the customer. Under this method daily till rolls will not reflect the full value of papers supplied. The value of the coupons may be recorded either:

- If reimbursed in cash, vouchers are included in the till roll takings when received and banked. Unless an adjustment is made in the accounts to reflect any delay in receiving payment from the wholesaler there is a possibility that margins will be understated.
- If reimbursed by way of credit against subsequent purchases then the benefit of the coupons will be realised by way of lower purchase costs in a subsequent period. In effect, both sales and purchases are understated and the margin between the two is clearly subject to distortion.

Appendix 2 illustrates how alternative methods of accounting for vouchers and coupons can impact on probable gross profit margins.

Whichever method is used, the retailer is to ensure that full redemption of all vouchers and coupons accepted is achieved and maintain appropriate records.

Industry Standard Service Agreement

Due to the complex nature of the industry supply chain a document has been established which sets the standard of service levels and definitions operated between news wholesalers and retailers. Each wholesaler issues a specific contract to their customer, which forms the basis of trade. The service levels and facilities covered are:

- Terms and Conditions of Supply.
- Delivery – both Timeliness and Quality.
- Order and Supply Management.
- Unsold Management.
- Invoicing.
- Voucher Processing.
- Customer Service.
- Complaints and Arbitration.

Details of the procedures which retailers should follow when querying the service received are enclosed in the document along with, the approved methods when dealing with complaints and arbitration.

This area of guidance has been withheld to protect third party data

Greeting Cards

Greeting cards are a low maintenance, good source of revenue for the CTN retailer. Popular designs can be sold time and time again and many designs are popular for a number of years. Cards are classified into 4 principal types of card:

- Everyday Cards – blank cards, general birthday cards with no age displayed on the card and family birthday cards for example; Happy Birthday Dad.
- Occasion Cards - Wedding, Anniversary, New Home, Baby, Retirement, Get Well, Sympathy, Thank You, Congratulations, Leaving and Thinking of You.
- Christmas Cards-available in boxed sets containing 5 to 24 cards along with single cards.
- Spring Seasons - Valentine's Day.
- Easter Day, Father's Day and Mother's Day.

Publishers launch their Christmas cards range to retailers early in the year and deliver by July/August for retailers to start displaying from September. The build-up for other special occasion cards is 3-4 weeks, with the bulk of the sales in the last 3 days of the season.

Retailers generally operate on high margins on greeting cards - these can be anything up to 100 - 150% of the retail price excluding VAT. Generally, wholesalers do not offer sale or return terms and consequently soiled or damaged cards which can be quite significant, often affect the final gross profit margins achieved.

Distribution of Greeting Cards

Publishers sell either direct to retailers (DTR), or in the wholesale market. The two channels have distinctive characteristics, so that most publishers use either one or the other but not usually both.

DTR is favoured by most large retail chains, whether multiples, specialist card shops or CTNs. Cards are supplied to the retailer via sales reps or agents. The advantage to the retailer dealing directly with publishers is that they are spared the responsibility of choosing designs, which will sell well. DTR publishers may either deliver on a sale or return basis, particularly where seasonal cards are concerned, or else invoice after delivery. The latter arrangement gives retailers the chance to sell their stock before having to settle the invoice. This type of publisher includes: Hallmark, Carlton, Paper Hose Group and International Greetings.

Wholesale publishers sell through cash and carries and whole sale outlets to CTNs. It tends to take a more traditional approach with card designs. Wholesale publishers do not take risks with avant-garde designs that they cannot be sure will sell. Against this, the wholesale market is a more convenient source for retailers with uncertain cash flows. They can buy from wholesalers on a spot basis, whereas if they buy from DTR publishers, they must often book orders several months in advance of delivery. This type of publisher includes: Kingsley Cards, Regent Group, Hambleton Studios, and Simon Elvin.

Stock Control

Assistance with stock control forms is an important part of the relationship between a DTR publisher and its retail buyers. Publishers are usually responsible for keeping in-store displays full and tidy and for withdrawing poor selling designs. Each design is assigned its own pocket in a display and when stocks run low, the retailer re-orders from the publisher by returning a ticket on which details of the card are recorded. A retailer with a large selection of cards may return 50-100 tickets per week to a publisher who replaces the stock on a 'best seller' basis with either, the same designs or one which has sold better elsewhere. This means that both the publisher and the retailer can be more or less certain that the new stock will sell at least as well as the stock it is replacing.

From a retailer's point of view, the disadvantages of this system are delays in re-ordering; the labour intensive process of checking pockets; and the fact that it gives the publisher a better idea of the pattern of sales than the retailer has.

Some CTNs operate a stock control re-order system where a re-order form including the design is sent off to the publisher to trigger a reorder. Automated replenishment systems can also be operated.

Some retailers use EPOS systems, which provide an arithmetic stock control. However, there is a limit to the amount of information that a bar code can accommodate. Most bar codes identify a card's publisher and caption, but not its individual design.

Charity Cards

There are three categories of charity cards, which are often sold in packs:

- **Own brand** - cards published and sold by charities on a commercial basis - usually through their own subsidiary companies in order to minimise tax liabilities - in direct competition with those published commercially. Charities reckon to realise 45-50% of retail price as profit.
- **Royalty cards** - published commercially of which, the publisher or retailer pledges to donate a percentage of sales as a royalty to a charity whose name or logo is printed on the cards. The expectation is that the extra sales generated by a charity endorsement will at least cover the royalty pledged.
- **Cards bought by charities from wholesalers** overprinted and resold by them at a profit. This approach is favoured by small local charities.

Fireworks

CTN retailers especially around the traditional time of year, Bonfire Night, can obtain a further source of income through retailing fireworks. However, from the 1 January 2005 retailers can sell fireworks unlicensed to celebrate the following:

Celebration	Dates in 2005	Period of Designated Sales
Bonfire Night	5 November	3 weeks before and 5 days after 5 November
Chinese New Year	9 February	4 days before and including the Chinese New Year
Diwali	12 November	5 days before and including Diwali
News Years Eve	31 December	4 days before and including 31 December

Compliance officers should note that the dates shown above for religious festivals/celebrations will vary from year to year according to the following:

- The Chinese New Year falls on the 24th day of the 12th month of the lunar year.
- Diwali is a New Year festival set by the Hindu calendar. The Diwali date falls on the night of the new moon in the month of Kartika; usually in October or November of the western calendar.

Any retailer who wishes to sell fireworks at any other times from those shown in the table above will require a license from the local authority, the cost of which can be up to £500 per annum. A license is also required for anyone who intends to store fireworks of more than 50kg net of fireworks on the premises. This is obtained by applying to the Trading Standards Department or the Fire Service.

An indication that the retailer may be selling fireworks from the outlet will be seen by a notice displayed at the outlet informing customers of the age restrictions of selling fireworks to anyone under 18 years of age, along with the law regarding possession of fireworks in public places.

Fireworks are usually contained and displayed in a glass cabinet and retail boxes of fireworks must not be split; only some large individual devices and some sparklers can be sold unpacked.

Retailers can sometimes obtain fireworks for retail through 'Bootlegging' carried out more commonly in pubs, clubs and car boot sales. These usually carry no liability insurance and are unproven and untested. Any retailer who fails to comply with the fireworks requirements can be prosecuted with a fine of up to £5000 or a prison sentence of up to six months, or both.

The retailer can obtain supplies of fireworks from wholesale suppliers, cash and carry outlets and over the Internet. However, purchases from cash and carry stores will only be during the designated celebration periods detailed in the table illustrated above.

Deliveries from wholesalers usually include a carriage charge in the region of £10 to £15 on any size of order and any number of packs and prices include VAT. Payment can be made by cheque, credit or debit card. Prices vary from £20 to £2000 for large display packs.

Legislation and Regulations detail the regulations in place.

Other Sources of CTN Income

Books	Postage Stamps
Advertising Notice Boards	Maps
Football Pools Competitions	Agencies for Bus Passes
Spot The Ball Competitions	Photocopying Services
British Telecom Phone Cards	

Whilst some of the services listed in this section may provide for high profits in themselves, the principal purpose is often to attract customers into the shop to make further or larger purchases.

Books

The more popular works of fiction are frequently sold in CTN's and these are likely to provide a gross profit rate of 30% to 33%. However, profit rates will vary and will be affected by competition from such sources as the Internet and supermarkets. For the most part books continue to sell at the publishers' recommended price. CTNs have increased competition for the share of the book selling market, not only from the main booksellers who offer top titles at substantial mark-downs but also from the supermarket chains who do likewise.

Half-price, discounted hardback books are commonly sold and stocks of paperback books are normally updated on a weekly basis.

In most cases, the volume of trade will be relatively small. It is worth bearing in mind however, that books, magazines and newspapers are zero rated for VAT purposes and therefore separate accounting procedures should be applied for VAT purposes. VAT guidance for sales of books sold with other items can be accessed via HMRC <http://www.hmce.gov.uk> Notice 701/10.

Advertising Notice Boards

Many newsagents invite customers in the area to place small advertisements in the shop window or in an enclosed purpose-made display board. A small charge often of only £2 or £3 per week is made to the customer. This source is unlikely to provide considerable income but nevertheless, should be accounted for.

Football Pools Competitions

The most common and popular form of pool betting, which includes horseracing and greyhound totes, in the UK is the football pools, being regulated by the Betting, Gaming and Lotteries Act 1963. A deregulation in 1997 amended this Act which allowed pools coupons to be delivered to retail premises such as; betting shops, post offices and newsagents for sale and forwarding on to 'pool promoters' or operators. Some retail outlets also sell instant win products. However, retail outlets are not permitted to pay out football pool winnings.

Pool betting operates by pooling the stakes and sharing the remainder of the money, after deducting expenses, tax and operator's profits, amongst the winners. The amount of exact prize money depends on the number of winners.

The following features must be included in a pool for it to be considered a 'betting pool':

- an entry fee
- a cash prize
- the capability of selection for participants which can decide the winner

Although, the launch of the National Lottery in 1994 along with the introduction of internet, telephone and digital TV betting had a devastating impact on the football pools companies the football pools remain a hugely popular pastime among a large sector of the population. Recent research indicates that there are over 10 million of the UK population alone, playing the football pools each week hoping to scoop the elusive jackpot, by matching 8 out of 49 football matches which are likely to obtain score draws, resulting in 24 points in one line.

According to the ONS survey, football pools are the most popular in Scotland with people living in London being the most unlikely region to play. The average spend on fixed odds or football pools coupons, is in the region of £3 to £3.50 per week.

The four main UK pools companies are; Littlewoods, Zettors, Vernons and Brittens of which Littlewoods is the largest operator with over 80% of the market share, directly employing approximately 1500 office and call centre staff. Research indicates that there is also a network of over 16,000 self-employed independent collectors who manage pools coupons and instant win games, operating through the UK.

Legislation and Regulations Applicable to Pools Promoters

Promoters of any pool betting business are required under Section 4(2) of the Betting Gaming and Lotteries Act 1963 to be registered with the local council. Registration is renewable annually on the 1 January each year for a fee of £464 (2006).

Pool promoter's records are subject to examination by HMRC to ensure all betting duty has been collected. Pool betting duty was amended on 31 March 2002 making coupon betting liable to general betting duty instead of pool betting and pool betting duty charged on the promoter's gross profits-net pool betting receipts.

<http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?>

Spot the Ball competition: Is not pool betting, as it is based on a past event where the result is not generally known and a panel of judges decides a competition.

The Pools Promoter's Association

This is a body of representatives from the operators of football pools competitions that is; Littlewoods, Vernons and Zettors. On occasions they will appoint a 'pools panel' to determine the results of matches at its request.

How Football Pools Competitions Work

The football pools is a form of pari-mutuel betting – a betting system in which all bets of a particular type are put together in a pool. Payoff odds are calculated by sharing the pool among all placed bets after taxes and a house 'take' have been removed - like the National Lottery and as with the lottery is based around 49 numbers. Each of the numbers coincides to a football match, which is played on the nearest Saturday. The jackpot is won by correctly predicting 8 matches that will result in a score draw for example; 1-1 or 2-2 but smaller prizes can also be won for 6 or 7 score draws combined with no score draws.

Each set of predictions is known as a line and the current costs per line 2005/06 are:

- Vernons 5/11 pence
- Zettens 1/8 pence
- Brittens 1/15 pence
- Littlewoods 1 and 2/3 pence

The return on pools betting can never accurately be determined, as opposed to bettings that are placed with a bookmaker because the total number of people participating is unknown. Also the same winning forecast can be shared amongst several winners with the jackpot being divided. If there is no first prize winner, as with the National Lottery the pools promoter is allowed to rollover the prize to the next competition taking place. Results are published on the Internet, in national newspapers, television and on teletext but only claims for the winning jackpot are required; all other prizes are posted out automatically.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Football Pools Access

Playing the pools can be accessed in a number of different ways:

Telephone

By making a simple telephone call to a customer service centre the football pool bet can be placed.

Postal Services

Customers can play the football pools by completing a coupon delivered by post to the customers home address, completing and posting it direct to the promoter. These may be obtained by writing or emailing one of the four main operators who then send coupons out to customers, usually every month.

Retail Outlets

Collection can be made from a retail outlet such as; a newsagents or post office, weekly. Nation-wide supermarkets for example; Sainsbury's and Safeway's also stock coupons and instant win products. Coupons purchased are usually posted direct to the promoter. More recently, PayPoint retailers have enlisted to accept 'pools cards' whereby customers pre-register their football pools numbers and place their weekly stake at the PayPoint outlet. Retailers are not permitted to pay out winnings on football pool competitions.

Collection Service

Customers are visited either in their home or sometimes at social clubs or their place of work, by self-employed door to door collectors, offering pools coupons and instant win products making submissions by post.

Internet and Interactive Television

Direct access and the ability to play football pools on the Internet and digital TV are offered to customers who register on gaming and betting sites. Funds are required to be deposited into an on line account by customers with a minimum of £20.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

The Work of a Football Pool Collector

Collectors are independent, self-employed people permitted by the football pools promoters to receive entries and are agents of the customer, not the promoter. A few collectors may run a team of sub-contractors but this is unusual since the collector must meet their wages out of his own pocket.

Coupons delivered to each customer house, must be completed and reach the promoter before the football league programme starts on Saturday. Collectors will then call on their customer's to retrieve the football coupon, calling back in all weathers for coupons not completed at the first visit. They must also ensure that coupons and stake monies tally, sorting out any discrepancies and record the total from each collection. The collected cash must then be deposited, usually late on Friday night, or in the early hours of Saturday morning, in the night safe of a local bank.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Football Pool Commissions

Football pools collectors receive 12½% commission on each player's average stake of £2. It is usually paid by way of retaining the appropriate percentage of the total collected stakes. In calculating any net profits for tax purposes, a range of mostly minor expenses are deducted, often leaving only small amounts to be taxed.

The range of commission and earnings however, collectors may obtain, is very wide. The population density of the collection territory has a considerable bearing on earning capacity - a widespread collection means a low collector/customer ratio.

From time to time, collectors are expected to recruit new customers and to distribute promotional leaflets. Normally, the football pools promoters make funds available for this aspect.

Promoters Affiliate Programmes

Football pool promoters offer customers with associated gaming sites, possibilities of earning commission on for example; Littlewoods Gaming programmes. Customers earn commission by way of promoting games and products on their web site to entice and increase visitors to promoter's sites. The increased trade who play the on line games on the promoter's site, the more commission is obtained by the customer. Such programmes can be registered free of charge and game products, game promotional news and improvements are provided.

Travel

Some travel claims are based on a mileage allowance recommended by the Motoring Associations or used by employers. These fixed mileage rates assume the use of a mid-range vehicle, renewed every two years and driven fulltime over an average minimum annual mileage. The use of such a basis of calculation of expenses may be challenged if, for example, low capacity vehicles are used and renewed at long intervals.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

If the taxpayer is provided with a vehicle in connection with their main employment, they may pay the employer a nominal amount for private usage, which includes football pools collections. The employer usually meets tax, insurance costs and running expenses. The actual cost of using the vehicle for football pools agency work would be small. If such a vehicle is available, claims that a private vehicle was used should be examined carefully.

Canvassing by Collectors

This may entail a door-to-door recruitment campaign by a collector in their own collection territory. It is not considered popular work but collectors are contractually bound to undertake it, if instructed. It may on the other hand be no more than leaflet distribution. It is not uncommon for collectors to give this work to their children or other family members.

Guard Dogs

A claim by a football pools collector that a guard dog is necessary on the collection round for security purpose is not unusual. However, it will be rare for the expenditure to have been incurred wholly and exclusively for protecting the collector on collection rounds and only a nominal deduction should be offered. If the full claim is pressed, you should ascertain, for example,

- the breed of dog
- if the acquisition of the dog or its predecessor coincided with the start of the work.

Football Pools Competition Glossary Terms

Pool Promoters	A person who carries on the business of pool betting other than on the track.
Pool Betting	Defined in Section 10 of the Betting and Gaming Duties Act 1981- "any bet ,unless it is at fixed odds and in particular, bets shall be held to be made by way of pool betting wherever a number of persons make bets"
Collector	Person permitted to receive entries
Plan	Any combination of forecasts allowed by pools promoters on written entries.
Stake	The sum paid by the customer to the promoter.
Winnings	The sum of money paid to a customer from a pool where sufficient points entitled the customer to a share of that pool.
Score Draw	Where both teams score the same number of goals above zero in a match.
No Score Draw	The result of a match where neither team scores any goals.

Spot the Ball Competitions

Commissions are calculated on the same basis as football pools collection but are separately expressed in Section 16 returns. Some if not all promoters, may also give cash prizes, of say £100 to the collectors whose customers win. The prizes are taxable receipts.

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British Telecom Phone Cards

Various companies produce phone cards selling them at wholesale prices. Phone cards can be purchased from CTNs by customers, in values of £5, £10 and £20 where they can be used for making calls at public pay phones, call centres with multiple telephone booths, or for use on private home telephones.

CTNs can become agents and purchase phone cards for retail from British Telecom, the minimum order being cards to the value of £120. The invoice from BritishTelecom is payable within 28 days and the retailer pays only 90% of the value ordered, the balance of 10% being retained as commission. A discount of 20% to 25% is offered to the agent if cards are purchased by cash or 30% is offered if it is taken as extra phone cards.

Retailers who provide this service display posters advertising the sale of phone cards publicised at the outlet.

Any retailers who acts as an agent for the sale of phone cards, must account for VAT at the standard rate on the commission received from the phone card supplier.

Postage Stamps

Postage stamps, usually in small booklets of first or second class, are frequently sold in CTNs, with a standard 5% commission earned on sales. Commission on postage stamp sales is VAT exempt.

Maps

Independent CTNs and newsagents can be supplied with a range of maps for retail usually from one of three publishers that is; Estate, Geographer's A-Z and Streetzee. Usually, maps are on display on the counter top 'hotspot' in the hope that increased sales will be obtained from customers 'popping in' and asking for directions from sale staff.

Often, easy to use street maps of the local area are sold to customers entering the outlet, who will purchase these whilst visiting the area or to travelling business people. Retailers whose outlets are in tourist areas or towns with a significant number of major attractions such as; horse racing or air shows, will obtain notable income from the sale of these items. Customers will often make further impulse purchases of say; crisps, drinks, magazines and cigarettes increasing the retailers' vital 'footfall'.

Advertisements detailing maps for sale are often displayed on store windows to attract passing trade to enter the store.

Maps are generally supplied on a SOR basis although; one off special maps will normally be on a 'firm' sale. Map retail prices vary according to format, scale and size but can range from £4.00 to £8.00. Spiral bound area atlas publications are inclined to more expensive, ranging from £10.00 to £15.00.

Agencies for Bus Passes

London Regional Transport (LRT) and possibly other Transport Authorities may grant a CTN retailer an agency to sell bus passes. The agency commission is 5% of the face value of the passes sold, which remain the property of LRT, as the retailer does not have to buy them. LRT's representative typically visits on a monthly basis, agrees the sales and arranges payment of the commission.

Transport For Londons Oyster e-money, in conjunction with Alphyra Payzone is due to provide cards which, can be used to pay for items and services in CTNs and newsagent outlets.

Photocopying Services

A number of CTNs offer the facility of photocopying services. The retailer pays an initial set-up fee and the photocopying company provides the installation, service and paper supplies free. Typically, the retailer charges 5p for an A4 copy or 10p per photocopy of A3 size -the amount prescribed by TRM and the retailer reads off the number of units sold every month, upon which an invoice is based. The bill is based on the sales figure less a discount of between 10% and 25% depending on sales volume.

Wholesale Supplies

Wholesalers will often provide retailers with a delivery service on items along with special promotion discounts and bulk or quantity purchases discounts. The range of items may include:

- confectionery including; weigh-outs, crisps and snacks
- tobacco products for example, cigarettes, cigars and pipe smoking tobacco
- ice cream
- bottled water
- off licence drinks, wines and bottled and canned soft drinks
- pet foods
- chemist and toiletry products such as; plasters, cold remedies and shampoo
- stationery items.

Usually the wholesaler will supply an invoice, which includes the following detail:

- code of product
- the type of goods ordered
- size of item or pack
- recommended retail price
- trade price
- discount or any bonus applied
- sales total of invoice
- profit margin on each product ordered
- VAT rate and VAT total.

Wholesalers normally offer discounts such as; discounts for bulk purchases or early settlement discounts up to approximately 3%. Credit terms are also likely to apply and will usually be offered between 14 and 30 days. Both of these aspects should be established with the proprietor.

Wholesalers Bonuses

Some wholesalers operate a system of quarterly cash bonuses based on the value of goods supplied. Usually, because of the quarterly bonuses operated, the retailer is prepared to pay more for the goods week by week, than travel to another wholesaler. The practice makes little recognisable difference to the gross profit rate (GPR) provided that, the quarterly bonuses are credited to sales or deducted from purchases.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Cash and Carry

CTN retailers will often purchase stocks from 'Cash and Carry' warehouses mainly because they stock a wide range of products and can be up to cheaper than the delivered wholesale items. Retailers are likely to use local wholesale outlets and examples of wholesale prices can usually be found on the wholesalers' websites.

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Other incentives for purchasing from cash and carries include:

- normally a comprehensive range of products available ranging from confectionery products, tobacco products, crisps through to beers and wines
- wholesalers premises in locations which are easily accessible and well-situated for example; retail parks for retailers and usually open seven days a week
- wholesalers opening hours are often longer than normal shop hours in order that traders can visit when not trading themselves
- there are no minimum spending restriction requirements
- credit facilities available on purchases are becoming more common
- drop shipment facilities provided to retailers which are especially convenient for perishable items, this enables the shop owner to send goods direct from the cash and carry warehouse to the customer without the customer aware the retailer does not stock the item.
- shop fitting services available
- stocktaking and insurance schemes available
- Air miles can be obtained on purchases
- wholesalers own label or house branded goods available such as; Red Band, Happy Shopper and Home Office Range.

Group Purchasing Facilities

Compliance officers should establish if the trader belongs to any trading groups which initiate group purchasing facilities to obtain greater benefits of trading such as; improved discounts or credit terms. The terms and conditions of any such contract between the two parties should be examined in order to establish the retailers correct GPR.

Members of the CTN trade associations, for example the National Federation of Retail Newsagents (NFRN) can obtain improved terms from their suppliers by purchasing stock through the companies set up by the NFRN. Between them, the companies cover the UK. Each company operates independently of the others but their methods of trading are understood to be much the same. Members of the NFRN who wish to take advantage of the improved terms have to join one of the companies and are expected to place as much business as possible with the suppliers with whom that company deals.

The companies negotiate improved discounts, and so on, with suppliers. The member places orders directly with the suppliers, who send invoices both to the member and to the company offering special terms. The company pays the suppliers and sends a monthly statement to the member showing the amount owing to the company. The company meets its running costs by obtaining a prompt settlement discount from the suppliers, which it does not pass on to the member. The company's trading surplus, if any is disbursed to its' members. Each member's share of the surplus is determined by the proportion that the value of the orders placed through the company bears to the total orders placed through the company by all its members in the relevant period. The company however, has the right to retain part or the entire trading surplus and can do so if it has no other source of working capital. Accordingly, the amount paid out to members may not sustain any relation to the distribution formula.

PayPoint

PayPoint originally collected payments for British Gas, BT, BBCTV Licensing, London Electricity and four Water Companies through its network of retail agents. It currently has over 500 clients and has increased its retail network agency and developing new services over recent years, with many of its outlets opening from early in the morning till late into the evening, seven days a week.

As well as, paying household bills it is also possible to buy Top-up and International calling cards also for example; Vodafone, T-Mobile and Threepay mobile phones, at PayPoint retailers.

PayPoint clients pay fees for each payment that is collected. Listed below are some of the principal PayPoint clients.

- Cable, fixed line and mobile telephone companies including mobile phone Top-Up cards and calling cards.
- Many of the UK's major energy companies.
- Water companies in the UK.
- Transport and travel companies including bus tickets.
- Housing Associations in the UK.
- Local Authorities for payment of rents and council taxes.
- London Congestion Charge.

The retail network boasts 16,000 outlets using PayPoint collection systems of which 13,100 are retail agents. These include independent CTNs, newsagents, supermarkets, garage forecourts, and off-licences although, multiple retail agents list for approximately half of PayPoint's retail agency such as: Londis, Spar, One Stop and Co-op.

By accessing PayPoints Internet website and the search facility 'Nearest Outlet Finder', you will be able to search for the nearest CTN, garage or off licence in a designated area which, operates a PayPoint service.

For a retailer to become a PayPoint retail agent an application form providing the following information requires completion:

- details of the outlets opening times
- average sales per week on mobile phones
- debit and credit card average sales per week
- average sales per week for online National Lottery ticket sales
- bus/train ticket average sales and details of the distance from the store to the nearest bus stop
- average number of transactions per week from ATM cash machines
- area covered by dry storage.

As previously mentioned in addition to paying household bills it is also possible for customers to buy Top-up and International calling cards PayPoint facilities are provided free of charge to customers and cash payments can be made. A receipt is issued to the customer, with the retailers billing record updated the next day.

The retailer has the proviso to generate additional sales by offering PayPoint facilities at the outlet and obtains discounted services and lower cost banking. By providing PayPoint and ATM services and terminals situated inside the outlet, CTNs are able to benefit from increased sales with loyal, regular, customers, purchasing from the same store time and again. Customers using the facility will often make additional payments by purchasing items for example; cigarettes, milk or magazines, whilst paying for household bills or obtaining cash.

Industry research indicates that PayPoint customers purchase other items whilst visiting an outlet to make a PayPoint payment, averaging between £4 and £7, with the PayPoint facility making the customer a more regular shopper of the store.

PayPoint has national coverage where, over 95% of households in the UK are situated within one mile in urban areas and within five miles in rural areas of a PayPoint retail agent. Retail agents can also use the PayPoint terminal to process debit and credit card payment transactions. Commissions are earned by retail agents on each transaction/payment taken which vary according to the type of transaction made; between 0.5% to 37%. The retailing agent's commission on utility payments is 1% but capped at 13p by PayPoint. However, indications are that mobile phone top-up transactions are more profitable. These can account for possibly one in three transactions made and provide for a retailer, an increase in the overall average income commission received.

A typical example of a retail agent's commission is detailed below:

Council housing rent payments made through a PayPoint terminal in one week adding up to 77 transactions, will total £6000 in value. At 0.5% commission, which is capped at 13p it gives the retailing agent a £10.00 profit. A comparative payment made at the Post Office would require a £1.65 charge.

PayPoint provides training merchandising and the technology systems such as; EPOS and PayPoint terminals free of charge, along with installation and training to their retail agents. Terminals operate on a dedicated telephone line and not only accept magnetic swipe cards and bar-coded bills, but also include smart card and smart key readers for energy pre-payment metering units.

In 2004 PayPoint introduced a new style terminal which enables contract -less smart cards to be re-charged, for transport industry ticket -less travel schemes. Smart cards are often used for travel and ticketing services where period passes and multi journey services are required. Blank Smart cards that have no commercial value are supplied to the CTN operator and when a transaction is carried out, is 'charged' accordingly. The re-charge transaction value is automatically recorded which provides audit information for the scheme operator.

Till rolls are provided free of charge along with free pinpads to the retailing agent.

This area of guidance has been withheld to protect third party data

Quantum Gas Card Recharging

Siemens are operators of Gas Cards supplying the machines and systems for outlets providing this service, many of which are CTNs, newsagents and Post Offices. Over recent years they have replaced coin meters which were often considered open targets for theft.

Gas Companies provide pre-payment Quantum Gas Meters often, for people who have difficulty paying gas charges. It allows for the repayment of debt and current consumption by means of a card that can be charged at outlets displaying the gas card sign. Once the card is charged it is then placed in the meter and the amount paid for is immediately transferred to the meter. Customers can charge the card with any amount from £1 to £250. You may find that payments and charges over £49 may take more than one transaction to be placed on the gas card.

Each outlet receives a commission on average of 1.6% although; this can vary to as much as 2.5%. The system provides a self-billing invoice which, shows the total sales, commission payable and VAT if the outlet is VAT registered. Siemens collect the net amount due that is; sales less commission and VAT, on a weekly basis. Each outlet is set up on a direct debit payment scheme and a BACS transfer is made. However, there is no requirement for the direct debit to be made through a business account.

Electricity Cards & Keys

Electricity cards, token or 'keys' operate in pretty much the same way as Gas cards and are used to pay for electricity by way of a cashless meter. The keys bear the customers reference number and meter serial number on them to enable the customer to purchase electricity usually by cash at PayPoint terminals situated in CTNs. Customers using this method pay in advance for the fuel each time the 'key' is charged. The charging information is transferred to the electricity supplier electronically.

Retail agents are paid commission on sales made for cards, which is paid over weekly. The agent records the sales and pays over the balance only, directly from the agent's bank account that is; sales less the commission due. The commission rate is 1% on whatever amount of sales are made.

EPOS Systems

The Electronic Point of Sales (EPOS) systems are used in many different outlets for payment of goods and services such as: CTNs, shops, fast food take-away outlets, hotels and restaurants. By reading the barcode on items purchased the system makes the appropriate charge and adjusts the stock requirements, raising orders for replacement items.

Three of the main providers of EPOS are:

- CTN Systems
- YP Electronics
- Newslave.

As a till, EPOS prints the receipts and records the transaction made however, in addition to this, it can also act as a marketing tool, creating a database of customers, orders and average spend. As well as the database allowing businesses to develop marketing campaigns, it also allows the CTN proprietor to analyse the business for example; they can find out which are the best selling confectionery items and change their stock accordingly.

Many EPOS have touch screen technology which, generally uses easy to read keys, with some screens having coloured keys, representing different types of stock options.

Costs of EPOS vary depending on the size of the business and the requirements of the proprietor. The cheaper systems can run from a standard PC but others require more complex hardware and can cost in the region of £8000.

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The National Lottery

According to Camelot plc during the year to 31 March 2006 ticket sales of the National Lottery grew from £4766.1 million to £50112.8 million, an increase of 5.2%. Increased ticket sales for dedicated lottery games such as; 'Go for Gold Instants Cards' to support London 2012 have raised £16.3 million for the Olympic Lottery Distribution Fund.

Currently, about two-thirds of retailers operating the National Lottery within their business outlet are independents and the remainder are multiples such as; supermarkets. The National Lottery Commission have indicated that there is a clear aim to ensure the majority of terminals are retained within the independent sector.

From 1 September 2005 the National Lottery operator Camelot plc, lowered the minimum level of lottery ticket sales it requires retailers to meet, from £1400 per week to £1000. This means that any retailer whose lottery terminal which was under review due to low sales will not have the terminal removed.

However, the 'Thunderball' game introduced in 1999 with a top prize of £250,000 has done little to increase sales in CTNs along with play on distribution channels for example; Sky Active Lotto and Play by Text on mobile phones.

Sources indicate that the average weekly amount spent on lottery games is relatively low between £2.20 and £2.60 (2003) with expenditure increasing only slightly in 2005.

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Further information is also available on the National Lottery website
<http://www.natlotcomm.gov.uk/Home/>

Specialist Traders

News Vendors

The kiosk type or station news vendor usually, sells a range of papers and magazines and is subject to the same terms of supply as the conventional CTN. The street corner news vendor selling only evening papers is allowed the same discount as the newsagent but is not allowed full sale or return terms by the publishers.

Similarly, news roundsmen are also supplied on the same terms as the newsagent. Whilst the roundsman has no shop facilities with their inherent overhead costs, high transport and labour costs are sustained.

Tobacconists

The traditional tobacconist always sells other items on which a return, much higher than that obtained from tobacco products is likely. The average proportion of turnover relating to these non-tobacco items is one-third, though it will obviously vary from case to case. Apart from confectionery the non-tobacco items are lighters, cigarette cases, small gifts, hip -flasks and pipes on which mark-up is unlikely to be below one-third on cost. The Q rate at which supplies are obtained will probably be favourable because turnover is likely to be substantial. If turnover is not substantial, business is unlikely to continue because of the high cost of financing a wide range of expensive stock.

The 'kiosk' type of cigarette specialist, selling at cut prices relies on high volume trade, which enables purchases to be made at favourable rates.

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Trading Standards – details of any trading standard reports

Trade magazines – for example; The Grocer

Trade Associations – See Appendix 5

Local newspapers and free publications

The Yellow Pages

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Internet and Advertising

More and more businesses are advertising their products and services on the Internet. Although not commonly associated with this trade advertising can be a means of combating the effects of competition and a way of expanding the business. Although, some Internet websites are fairly static brochure-style marketing sites, many offer interactive facilities, generally providing details of the products and services available.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Costs for Internet advertising range from as little as £10 per month for an Enhanced Listing to £32 per month for a Site Builder for example; www.yelldirect.com

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Gross Profit Rates

The majority of goods sold by CTNs will be at the suppliers recommended retail price (RRP). Many of the items sold will already have been marked with the RRP for example; newspapers, magazines and confectionery goods. See Appendix 1

Some CTN businesses complain that manufacturers, as part of their promotional campaigns use price marking to attract customers; creating an increase in volume sales. The price marked may reduce the profit margin that would normally be taken on the article. Tobacco products may regularly be sold at discounted prices to attract customers into the outlet, in order that they may then make an impulse purchase such as; chocolate bars, of a higher priced item. If the RRP is not adopted the typical gross profit on that line of product may not be attained.

The overall gross profit margin varies according to a number of factors. During the course of your enquiries you will be provided with many different reasons by the trader for low profit margins however as in common with any business that derives its income - or part of it – from the purchase and sale of goods and services. The crucial factors to consider are the costs of supplies, the scale of charges and the mix of the products and services that add up to the turnover.

There are many factors influencing the actual percentage of total turnover attributable to wages including the type of outlet and services provided.

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You may wish to refer to the HMRC Business Income Manual BIM57600 which gives details on profits obtained on franchise businesses.

Profit margins gained by retailers on newspaper sales vary according to the particular newspaper and the price on the day of sale; Saturday papers provide for increased profits to the retailer. Retailers with outlets say near a racecourse selling 'The Racing Post' which provides details of the days racing throughout the UK, may gain higher profit margins: See table below:

Newspaper	Price	Day	Margin
Daily Mail	£0.40	Monday-Friday	£0.09
Daily Mail	£0.70	Saturday	£0.14
Daily Mirror	£0.35	Monday-Friday	£0.08
Daily Mirror	£0.50	Saturday	£0.11
The Guardian	£0.60	Monday-Friday	£0.15
The Guardian	£1.20	Saturday	£0.28
The Racing Post	£1.30	Monday-Friday	£0.34
The Racing Post	£1.50	Saturday	£0.37

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Wastage

With CTN retailers handling a diverse selection of goods for sale in their outlets, wastage can occur for a variety of reasons. Adverse weather conditions can affect sales such as; chocolate items if hot or exceptional warm weather occurs.

Here are some typical ways in which wastage in the CTN outlet may occur:

- wastage may occur on chocolate and confectionery items if not stored or stocked at correct temperatures.
- if perishable goods pass their sell by date due to poor stock rotation
- goods can become damaged or remain unsold due to customers handling, when items are loaded onto shelves, or in storage.
- seasonal goods that are not sold after the peak duration of demand and cannot be sold the following year for example; Easter eggs. Although, you should be aware that these type of goods are often sold at a reduced price in 'odd bins'.
- unsold publications such as; newspapers and magazines which can not be returned on a 'sale or return' basis, due to the return date being missed.
- items damaged on delivery or due to soiling for example; wet papers due to weather conditions that can not be returned on 'sale or return' basis.

Retail Theft and Security

Shrinkage

'Shrinkage' is the euphemistic trade term that is frequently used to cover stock losses by shoplifters, till snatchers or by means of staff defalcations and theft. This can have a notable affect on overall GPRs for CTNs. Where there is poor supervision and bad lighting or shop fixtures and fitting that can conceal shoplifters, shrinkage is frequently more common and losses increased.

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Staff theft can transpire in the following ways:

- cash taken from the till
- stealing goods by simply carrying it out of the store hidden in shopping bags, handbags or concealing it under items of clothing
- eating products without making payment for example; sweets, snacks and soft drinks
- overcharging customers and providing shortages on 'cash back' consequently keeping the difference
- allowing others to use staff discount cards and discount entitlements for example; buy one get two free
- 'Sweetheart' discounting – bogus refunds given to customers who are usually in collusion with staff
- not ringing up all items sold on the till and keeping the difference of cash or ringing 'no sale' near the end of the transaction and keeping the cash
- refund obtained fraudulently by ringing through the barcode of product not often sold and cash taken from till
- staff in collusion with other employees and stealing goods for example; van drivers.

Customer Theft

A figure of 2.5% was cited in VAT Tribunal Report **Mumford & Anor LON 86/216** as a reasonable average, in a case where the customer base of an outlet comprised of large numbers of school children and the layout of the shop made security difficult.

Customer theft can transpire in the following ways:

- customer snatches money from the CTN till when proprietors back is turned
- theft of small items and sweets generally by children
- customer exchanges one price tag for another, on items within the store
- stealing items for re-sale often on the 'shadow economy' for example; cigarettes
- paying for goods with counterfeit money
- shop-lifting - walking out of the store with unpaid items in bags or under clothing.

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Records

The NFRN advises its members that it is a statutory requirement to maintain financial records either manually or in a computerised record keeping systems and it is essential for members to produce sound records. You should be aware that some larger outlets may have installed specialist software to house and maintain them.

Detailed below are some of the standard business records that you would expect to find in any CTN outlet:

- purchase invoices
- suppliers statements
- till rolls and any other form of electronic record of sales
- sales ledger and copy invoices to trade customers
- VAT records
- cash book
- petty cash book
- bank accounts and building society statements
- credit card statements
- stock records
- purchase records relating to business equipment for example; electronic tills and computers
- newspaper daily delivery lists/book including customer details
- financial records of video, DVD rental income if applicable
- PayPoint invoices - a weekly self-billing invoice is issued to agents which summarises commissions due and transactions carried out
- National Lottery Commission or Football Pools Reports – terminals print out periodic details of commission
- records of Income from other sources such as; video/ DVD rental, as agents for dry cleaning services
- other sales for which commissions are received if applicable
- wage records including those of newspaper delivery girls and boys, these records should cover number of employees, hours worked and hourly or daily rates
- car and van business and private mileage use and associated motor expenses.

Record Examination

The achieved overall rate of gross profit of a CTN is determined by the mix of the goods sold and it is necessary to take into account the siting of the premises and the nature of the trade before a proper assessment can be made of results. For example, the smaller street shop relying mainly on delivery sales is likely to have a smaller proportion of cigarette sales and therefore a higher rate of overall gross profit than one selling over the counter in a city office area.

It is meaningless to talk about a "low" rate of gross profit in isolation. The rate of gross profit must be considered in relation to the product mix and it is essential to know something of the nature and location of the business before even the most tentative conclusions can be drawn.

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Many CTN retailers operate a customer ordering service, which can give access to large numbers of magazines that may be ordered from the wholesaler and collected by the customer from the outlet. They provide for specialist titles and part works to be obtained more easily and are also utilised to entice customers to purchase other items from the store and increase 'footfall'. For example; if a customer orders a weekly magazine there is a need to visit the outlet 52 times a year to collect the magazine and 52 opportunities to purchase additional items and buy items on impulse, therefore providing for increased profits to the retailer.

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Credit Card Usage

Traditionally a high percentage of cash sales are taken in this sector. However, in recent years there appears to suggest that credit and debit card payments can also make up a percentage of sales.

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This area of guidance has been withheld to protect third party data

Value Added Tax

Wholesalers fall into the category of suppliers of goods and services and are required to charge the standard rate of VAT on supplies. They are not entitled to exemptions or to charge a reduced VAT rate.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

VAT Special Schemes

The special schemes for retailers are described in detail in VAT booklets 727 series.

CTNs and newsagents generally supply goods at both standard and zero rates and on occasions the exempt rate is applied. The special scheme will involve some system of breakdown between categories of supply. Most of the schemes are based on analysis of purchases and the CTN will therefore often require having some analysed information about product mix.

In general newspapers and magazines are zero-rated for VAT, but where, for example; a magazine includes a gift or item that is an integral part of the product, a proportion of the selling price becomes subject to VAT at standard rate.

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Appendix 1- CTN Range of Products and Services

On visiting a CTN outlet listed in the table below are some of the items which are typically available for purchase. However, the list may not be the full extent of goods available.

Newspapers and Magazines and comics
Confectionery – weighouts, wrapped and outers
Tobacco - cigarettes, cigars and hand rolling tobacco, cigarette lighters
Easter eggs and specialized Easter sweets and gifts
Ice Cream
Nuts, Crisps and Snacks
Milk including flavoured milk drinks
Packed sandwiches
Bottled and canned drinks - soft /alcoholic
Bottled water
Books and games
Stationery including, pens, cellotape, raffle ticket books and home office supplies
Greeting Cards – birthday, Christmas, Valentine’s day
Miscellaneous Items – maps and postcards
Customer advertisement facilities
Christmas decorations and promotional sweet selection boxes and chocolates
Stamps
Fireworks
Halloween toys and sweets
Other Small toys and gifts
Phone Cards and Mobile Top Up cards
Gift wrapping paper
National Lottery Tickets and Instant Scratch Cards
Travel Cards
DVD/ Video Rental Services
ATM Cash Dispensing Machines
PayPoint facilities
Dry Cleaning agency
Football Pool and Spot the Ball agencies
Shoe Repair agency
Post Office Services
Photo Copying Services

Appendix 2 - Accounting for Vouchers and Money-off Coupons

An illustration of business accounting features which Area colleagues may come across in the course of enquiries.

Assume:

Weekly Turnover	£8000.00
Newsbill	£4000.00
Other	£4000.00
All "Other" VAT at standard rate 17.5%	
Mark-up on cost 33.3%	
Margin on sales 25% (margins quoted are purely for ease of calculation)	
VAT Scheme B operated	
Money-off coupons per week	£200

Therefore:

Excluding VAT retail price - Other	£3404.26
Excluding VAT cost of sales - Other	£2553.20
Cost of Sales - Newsbill	£3000.00

	Netted off Purchases	Credited to Sales
	£	£
Takings	7800.00	8000.00
VAT	(595.74)	(595.74)
Turnover	7204.26	7404.26
Costs of Sales		
Newsbill	2800.00	3000.00
Other	2553.20	2553.20
	5353.20	5553.20
Gross Profit	1851.06	1851.06
GPR%	25.7%	25.0%

Appendix 3 - CTN Glossary

Below are some of the terms used in the CTN retailing industry.

Term	Description
ANMW	Association of Newspaper and Magazine Wholesalers.
ATM	Automatic Teller Machine often called cash dispenser.
Bootlegging	Alcohol and tobacco brought into the UK through illegal smuggling operations.
Box Outs	These are promotional extra copies of newspapers and magazines supplied to the wholesaler by the publisher on a sale or return basis.
Cover Price	The retail price printed on the front cover of a magazine or newspaper which the publisher recommends.
CSC	Carriage and Service Charge imposed by newspaper wholesalers for delivering to retailers.
Countlines	Chocolate based bars and snack biscuit bars often found in children's school lunch boxes.
Dailies	Daily newspapers published Monday to Saturday.
Fill-in	When retailers require extra copies of newspapers due to increased sales not accounted for fill-ins are supplied by the wholesaler.
Firm Sales	Titles of magazines and newspapers which are not returnable to the wholesaler.
HRT	Hand - rolling tobacco.
ISSA	Industry Service Standards Agreement.
JIG	Joint Industry Group.
MEL	Minimum Entry Level. A weekly value of newspapers which the retailer agrees to from the newspaper wholesaler on a non returnable basis.
One-shots	Undated publications usually only published once.
Outers	The outer box or packaging of confectionery such as; chewing gum packets or mints gum packed in outers of 20 containing 50 mint sweets.
Part Works	A series of collectable monthly or weekly magazines which are put together into binders.
Q Rate	The rate of discount given on bulk purchases of tobacco. From minimum Q1 to maximum of Q6.
SOR	Newspapers and magazines supplied to the retailer on a sale or return basis. Credits are given by the wholesaler on retailers invoices for any returns.
Shop Saves	Magazine orders retained until collected by the customer.
Straightlines	Boxes of chocolates.
Twistwrap	Individually cellophane twist wrapped chocolates usually sold in boxes.
Unsold	Newspapers and magazines unsold and returned to the wholesaler.
Weigh-outs	Loose sweets weighed out from usually from large sweet jars.
Wholesaler's Margin	The cover price percentage wholesaler's receive.

Appendix 4 - Example of a National Lottery Invoice

THE NATIONAL LOTTERY ORIGINAL

INVOICE 00021201
 SUN26 MAR 03 - SAT01 APR 03
 SUN02 APR 03 07:43:03
 RETAILER NO 108927

JOSEPH BLOGGS
 THE HIGH STREET
 ANYTOWN
 MIDSHIRE M1 1AA

NO.	ON-LINE	SUMMARY	AMT
1331	SALES	£	3534.00
37	PRIZES	£	502.00-
1	CANCELS	£	4.00-

NO.	INSTANTS	SUMMARY	AMT
8	SALES	£	1600.00
303	PRIZES	£	859.00-
	RETURNS	£	0.00

COMMISSIONS		AMT
SALES	£	256.50-
PRIZES	£	2.42-
ADJUSTMENTS	£	0.00
TOTAL AMT DUE	£	3510.00

PAYMENT WILL BE COLLECTED BY BACS WED05 APR 03

Appendix 5 - Associations and Organisations

British Sandwich Association

18C Moor Street
Chepstow NP16 5DB

British Soft Drinks Association

20 – 22 Stukeley Street
London WC2B 5LR

Association of Convenience Stores

Federation House
17 Farnborough Street
Farnborough
Hampshire GU14 8AG

The National Federation of Retail Newsagents

Yeoman House
Sekforde Street
London EC1R 0HD

Wholesale Confectionery and Tobacco Alliance Limited

Hope Cottage
PO Box 475
Farnham
Surrey GU9 8ZH

The Tobacco Manufacturers Association

5th Floor, Burwood House
14-16 Caxton Street
London SW1H 0ZB

The Biscuit Cake Chocolate and Confectionery Association

6 Catherine Street
London WC2B 5JJ

Appendix 6 - World Cup – Germany 2006

RRP	PRODUCT	CDU1	CDU2	FSDU1	FSDU2	FSDU3
£0.99	Air Freshener	20	30	30	40	80
£3.29	Baseball cap	-	-	15	20	30
£0.99	Bopper	15	20	30	40	80
£1.99	Car Flags (twin pack)	20	40	55	75	100
£2.99	Drawstring bag	-	-	-	20	35
£1.49	Face Paints	10	10	15	20	30
£2.99	Flag (5ft x 3ft)	-	10	15	20	30
£1.99	Inflatable hand	-	10	15	20	30
£0.99	Key ring	20	30	30	40	80
£0.99	Sticker Pack	20	20	30	40	80
RRP (inc. VAT)		£128.95	£243.30	£374.65	£562.65	£933.15
Cost to retailer		£69.14	£130.45	£200.88	£301.68	£500.33
Profit		£40.60	£76.61	£117.97	£177.17	£293.84

Source: WH Smith News 2006

Appendix 7 – Cigarettes: Quantity of Goods which UK Duty is not Paid Including Evasion (Billion Sticks)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total Consumption	76.5	75.0	73.0	72.5	NA
UK Tax Paid Consumption	56.0	54.5	54.5	54.0	52.0
Successfully Smuggled	16.0	14.5	11.5	12.0	NA
Cross-Boarder Shopping	4.5	6.0	7.0	6.5	5.0
Seized	2.8	2.6	1.9	1.8	2.0

Source: Her Majesty's Revenue and Customs 2005