

# EY Consulting Case Study

## Assignment Information and Background

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### Assignment Information

In the context of your Advisory course, you will be part of the Ernst & Young (EY) engagement teams from the different sub-service lines: Performance Improvement (PI) and Risk & IT.

Bigg-Glowbell (BG), one of the largest international drinks and beverages companies, has engaged EY to perform a number of assessments of the various functions they currently have within their organization, at both a group level and within Europe, the Middle East, and Africa (EMEA) region. They would like to perform these assessments in order to come out with recommendations that will help in improving these functions. This request follows the replacement of John Bigg as Chief Financial Officer (CFO) after a steady decline in profit and market capitalization over the last two years. John's departure was imminent at the end of the last financial year, when material adjustments to profit were made during the audit of the accounts. The announcement resulted in a 20% decline in shareholder value overnight.

The background information is split into three main sections: the engagement information, an overview of BG, and profiles of key BG and EY characters. As in real life, there is not always one sample solution for each task. Different approaches and ideas can lead to good and correct results.

# Bigg-Glowbell Overview

To *EY BG Team*  
 From *Beverley Cornell, Transaction Advisory Services (TAS)*  
 MLP. 9E. 1A Ext: 1990 Fax: 16500

Dear All,

In advance of you starting the assignment at Bigg-Glowbell, I thought it would be helpful to provide you with some background on the client company. I will try to provide as much knowledge as I can in this memo.

Remember that BG is an important client to Ernst & Young, so any work we do has to be of highest quality.

## Company History

As you would know, Bigg-Glowbell is one of the largest drinks and beverages companies in the world. It is a market-focused company and prides itself on being responsive to customers' needs. Its philosophy is: "The customer is king". BG started as a small, family-owned company and has grown into a major global corporation. The historical milestones are shown in the following timeline:

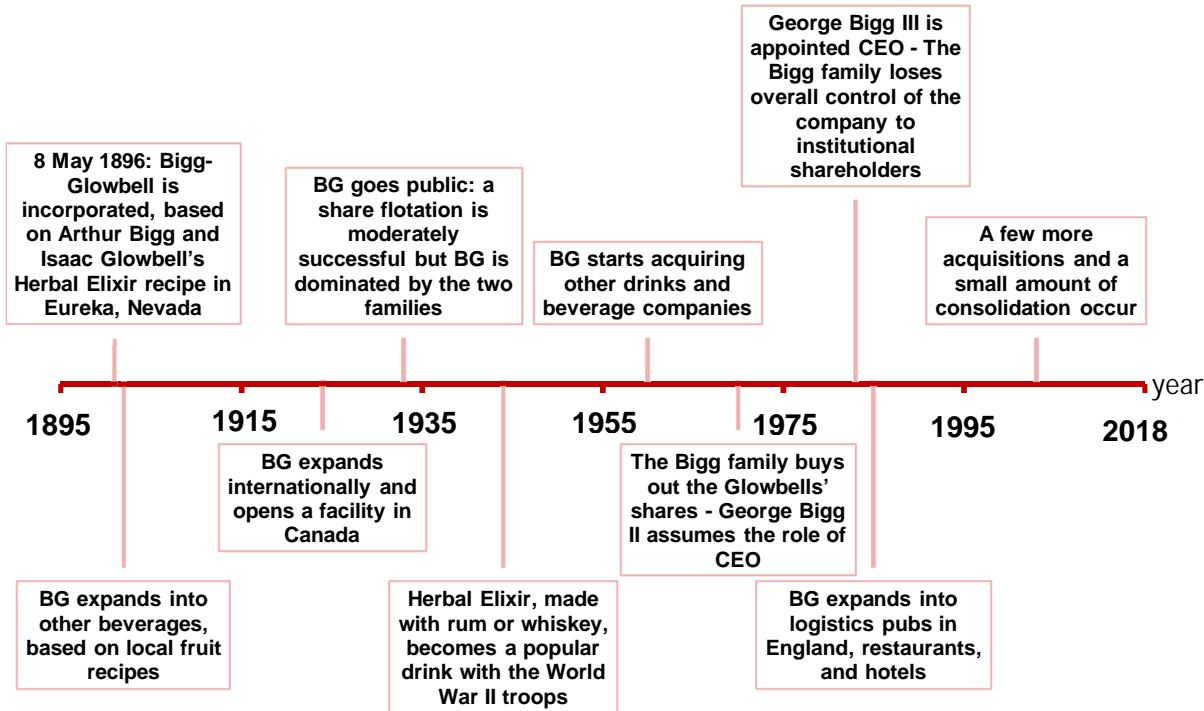


Figure 1: BG timeline

As sales growth fails to deliver profit expectations, the new millennium brings increasing pressure from shareholders. Rumors of hostile takeovers from rivals persist. An article in the Wall Street Journal suggests that BG could be worth more if it split into smaller organizations.

BG remains a dominant player in the drinks and beverage market. The family retains a shareholding in the company and until very recently John Bigg was the CFO. John still works for BG as a "consultant".

A period of declining profitability and poor share price performance was followed by a high-profile series of material adjustments to the accounts during the audit by PricewaterhouseCoopers (PwC). As a result, share price declined by 20% overnight. John Bigg was removed as CFO and replaced by Sarah Goldman. I know Sarah personally as we studied together at Harvard. She joined BG last month after being the CFO of Turnaround Holdings, where she led a series of acquisitions and post-merger consolidations during the mid to late '90s.

### Revenue and Profits

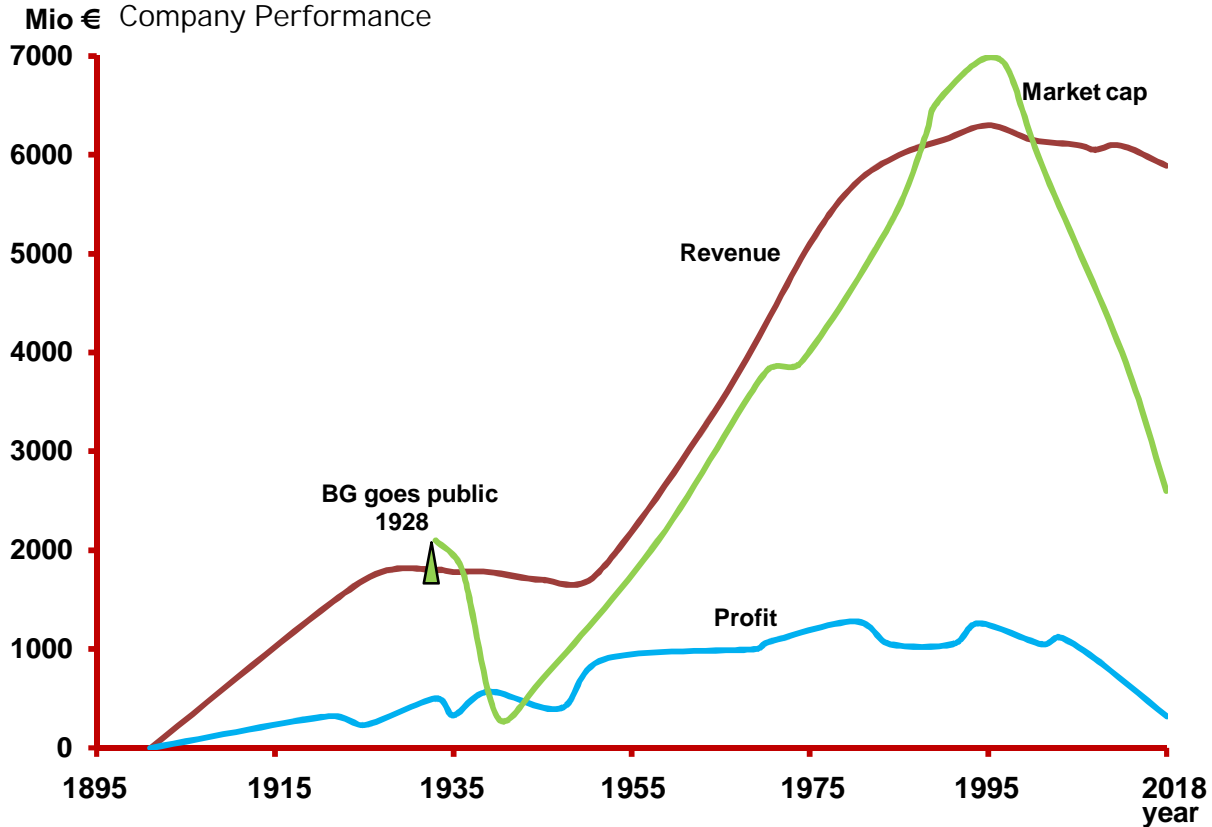


Figure 2: BG company performance until 2018

### Bigg-Glowbell global locations

Currently, BG operates in North America (NAR), Asia-Pacific (APAC), Europe, the Middle East, and Africa (EMEA), and Central America and Latin America (CALA). The company has ambitious plans to expand into China, India and Eastern European countries such as Slovenia, Romania, Russia, and Albania.

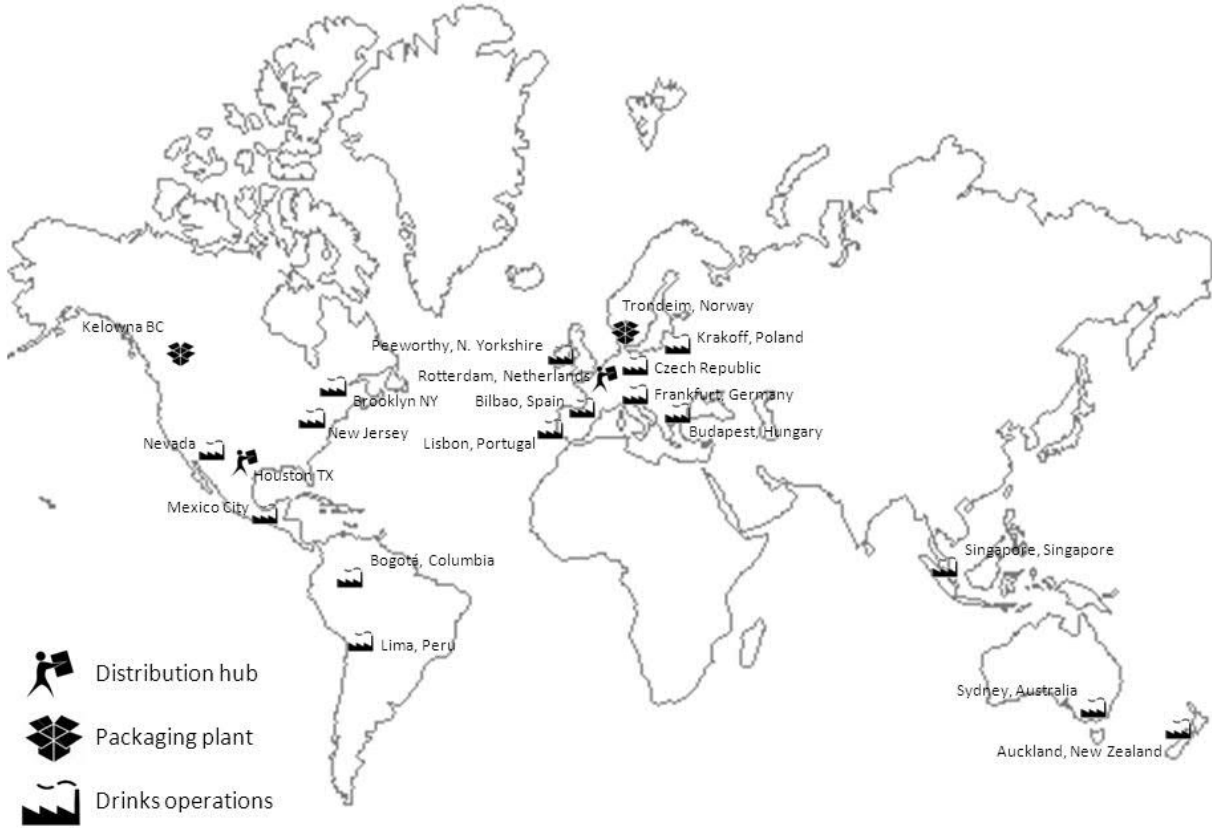


Figure 3: BG location map

### Bigg-Glowbell Organization, Products and Services

BG organizes itself in a matrix based on the geography and the divisions (Figure 4: Figure 4). The market-facing (geography) component is strong and the countries have a lot of autonomy in what they do.

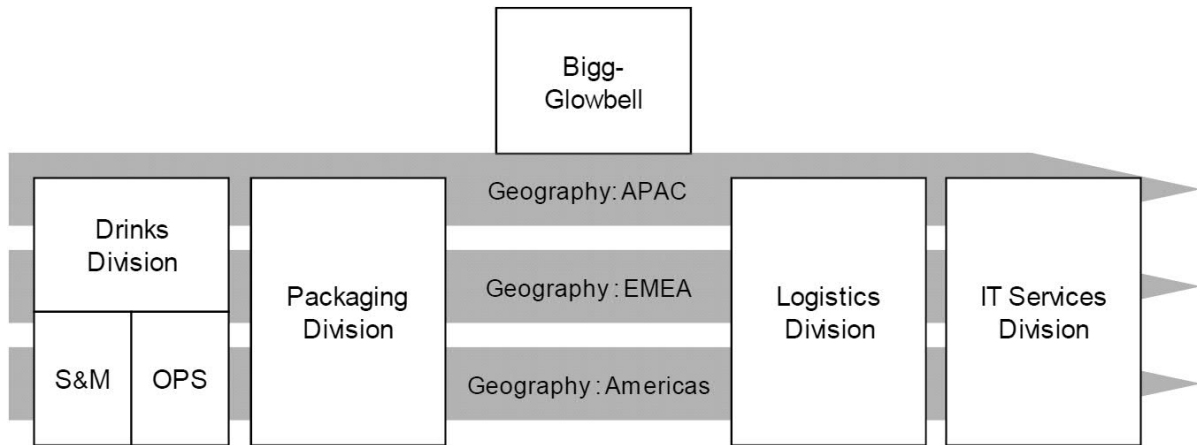


Figure 4: Division structure

- ▶ The organizational structure of the company is not fully aligned to the business structure seen above. Each region has a regional director and the board structure includes the regional directors, the Chief Executive Officer (CEO), the Chief Executive Officer (CFO), the vice presidents of marketing, IT, and HR, and four non-executive directors.
- ▶ Finance within the region reports to the Managing Director (MD), the ones with a dotted line report to the CFO (see organization chart).

## Organizational Structure

An example set of organization charts relevant to the engagements we are currently undertaking for BG is shown below. These charts are not exhaustive or uniformly representative of how the company organizes itself everywhere.

### Group Level

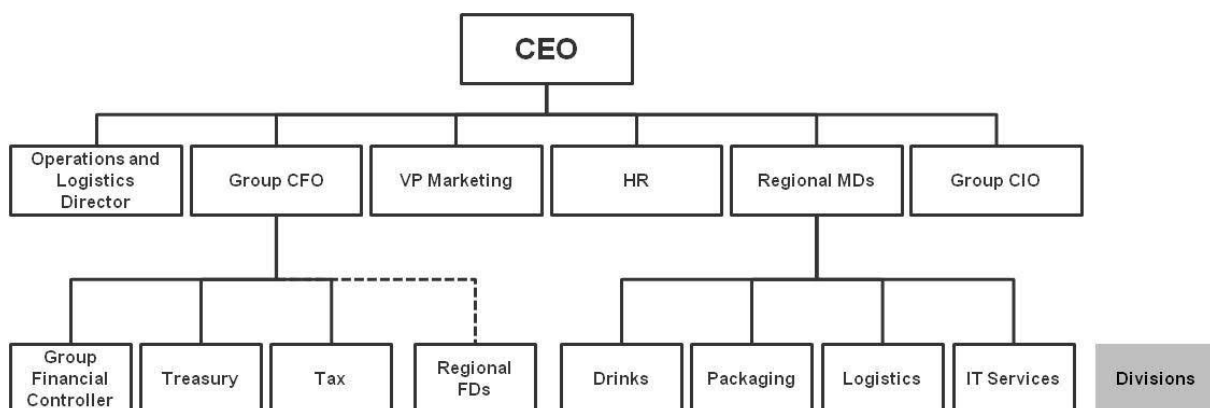


Figure 5: Organizational structure on a group level

## Division Level Finance

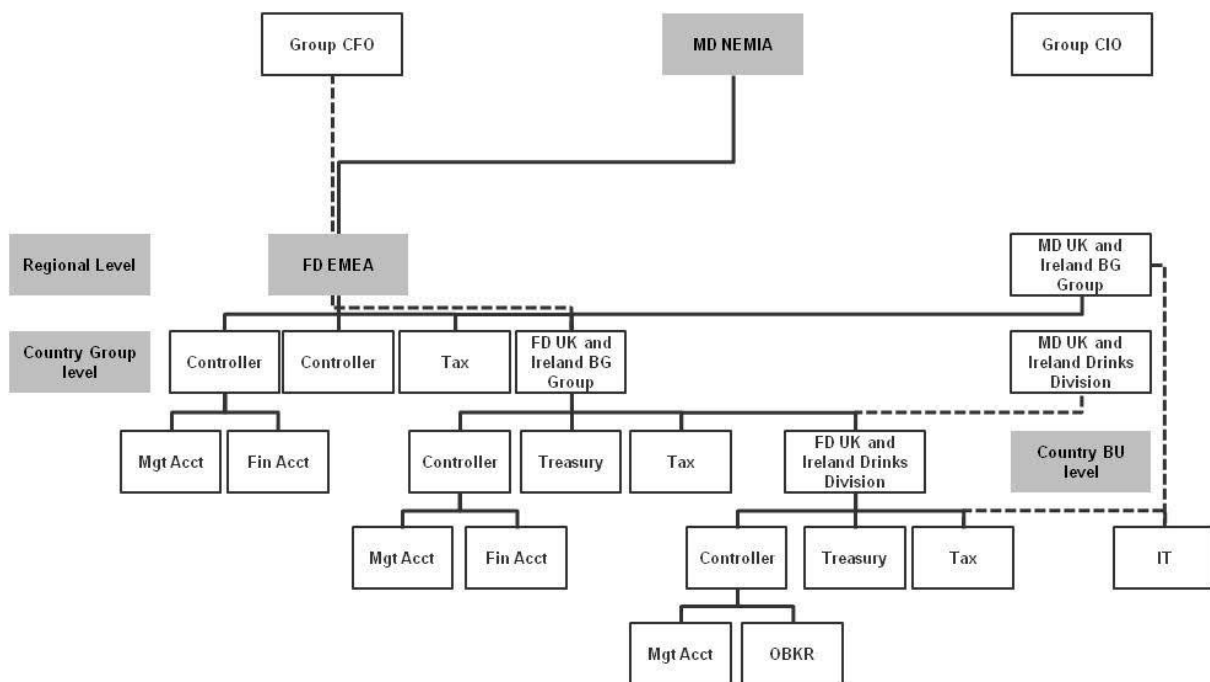


Figure 6: Finance division structure

- ▶ The regional level was introduced recently (2011) in order to transfer power to the regions. The Finance function has done a better job than the other support functions (particularly sales and marketing) of adapting to the new arrangement. This allows some FDs to report to their MDs instead of to Finance.
- ▶ The Packaging and Logistics divisions do not have operations in every country.
- ▶ Office of Bookkeeping and Reconciliation (OBKR) has some small "Shared Services" operations in the US, UK, and Norway. In general, these do not perform well and are not cost-effective. In fact, they cost more than when the consolidation occurred. The company looked at outsourcing these operations to IBM. However, the negotiations did not materialize. When the supplier did not guarantee cost savings, no agreement could be reached on the baseline costs and metrics.

## Procurement Organization (EMEA)

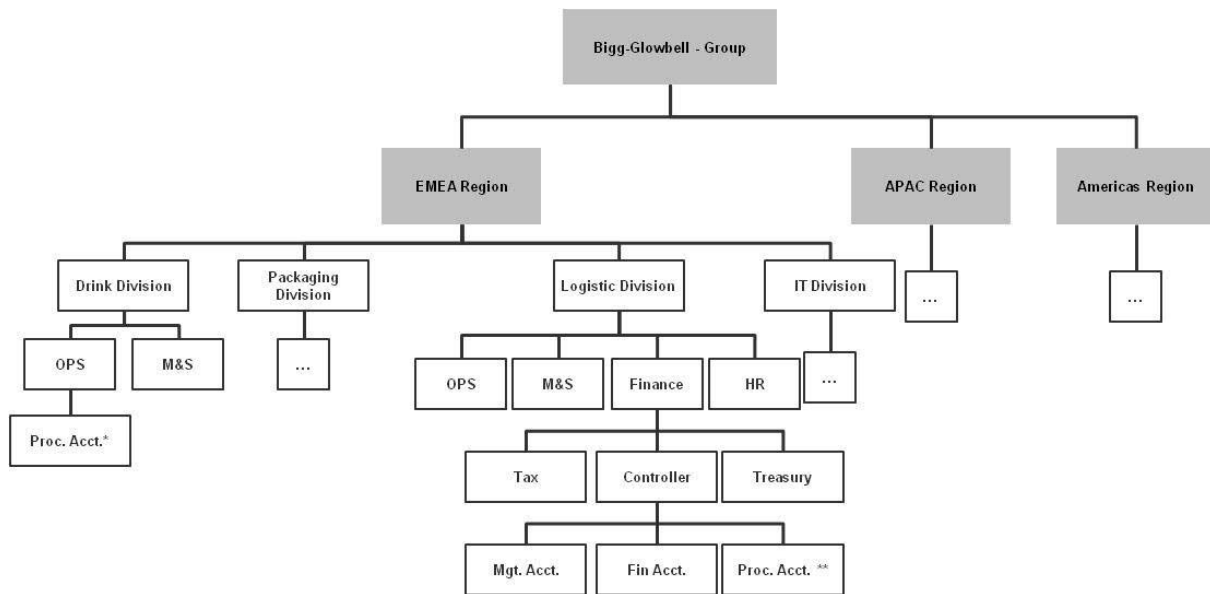


Figure 7: Procurement organization structure

- ▶ For Drinks and Packaging divisions:
  - \*The purchasing process is owned by the individual operations.
  - Both divisions have the same organization structure.
- ▶ For Logistics and IT divisions:
  - \*\*The purchasing process is owned by the Finance function and executed by Finance accountants.
  - Both divisions have the same organization structure.
- ▶ FTE procurement headcount across EMEA: 15 FTE.

## The Drinks Division - "Winning Through Service and Innovation"

The Drinks division manufactures have a wide range of alcoholic and non-alcoholic drinks, as well as the traditional Herbal Elixir. The division has grown through a combination of organic growth and acquisition. It owns a small UK based chain of pub/restaurants called "The Strange Stork" and a few leisure centers and country hotels acquired from a customer during financial difficulty.

### Product Range

#### Carbonates



Sold in bottles and in cans in three sizes: standard, large and family

- ▶ Herbal Elixir Classic
- ▶ Herbal Elixir Ultra
- ▶ Herbal Elixir Citron Twist
- ▶ Herbal Elixir Tonic (rejuvenation for the over-60 population)
- ▶ Fruitco Elixir (orange, lemon, raspberry and black currant)

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#### Fruit Juices



Sold in bottles, jars and cartons (B-pak)

- ▶ Concentrates
- ▶ Freshly Squeezed



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## Water



Sold in plastic and glass bottles in three sizes: standard, large and family

- ▶ Scunthorpe Spring Carbonated (also sold with citron or fruit-twist variants)
- ▶ Scunthorpe Springs Still

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## Alcoholic Drinks



Sold in cans and bottles

- ▶ Beer "Old Codger" (a product from the acquisition of Sidebottom & Sons Yorkshire microbrewery and pub chain)
- ▶ Alcopops (marketed under the Whizz brand)

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## Third-Party Products



Sold as part of joint venture projects mainly, but not exclusively, in the US and UK

- ▶ Russian and Polish vodka
- ▶ New Zealand wine
- ▶ Cambodian sake
- ▶ Czech and other Eastern European beers
- ▶ Australian and Chinese beer

## Drinks Operations

Bottling is carried out close to the market and is done by a BG plant where sufficient volumes exist. In smaller markets, the bottling is outsourced. In overall volumes, BG bottles 80% of its own products.

All distribution is undertaken by the BG division using a cost-plus approach. Transactions are billed and settled on a per-shipment basis through the appropriate local OBKR departments.

Joint ventures with third parties are managed and accounted for against a series of call-off contracts and profit-sharing arrangements negotiated locally by BG's Marketing division.

The Operations division also owns the procurement process, planning, and manufacturing. It also acts as an interface with the Logistics division. The function considers itself a pivotal player in delivering customer service and responding to requests from Marketing. A combination of BG's over-complex product range, a desire to be responsive to customers and a lack of effective demand planning contributes to periodic manufacturing issues. This also includes long product runs to keep changeovers to a minimum and short product runs to meet unforeseen customer demand. This creates frequent and conflicting problems.

Typically, some parts of the BG supply chain will have too much inventory while others will run out. In situations where demand cannot be met, the work is outsourced to third parties. These third parties are carefully selected based on quality and not on price. The Operations and Finance functions do not see eye to eye. In the past, George III frequently reprimanded John Bigg for the obstinacy and intransigence of Finance. There is little visibility regarding cost, and collecting data for reporting is difficult.

The complexity of the operations leads to issues concerning performance reporting. Essentially, the process operates on a day-to-day basis with little apparent planning and few metrics. The master scheduler (Pete Best) informs that they received "loads of complaint, mainly about shelf life". He suggests that since they were ISO 9000 certified it was OK because they wrote them down. He has to fill out a check sheet for the quality manager. Once that is done he usually bins them.

## IT Services (Solve IT) – “Daring To Go Where Technology Leads”

Born out of the SAP and RDS implementations, the IT division employs between 600 and 900 highly skilled graduates who earn top salaries. These graduates are divided equally between full-time employees and long-term contractors. The division, based in the US, UK, and Germany, was formally a part of the IT function of BG. Currently, the division operates as a business services operation and recharges its services to the business with a cost-plus approach.

Since they are not held accountable for the costs, businesses cannot source the services from other companies and are not too bothered about it.

In order to increase data availability and decrease the data administration effort, the company had engaged Accenture to implement a global SAP system in 2006. However, the design of the system was carried out in isolation and with minimal business input. When finally the pilot implementation in Holland brought operations to a standstill, sales were lost for an entire season. The situation was so bad that the company had to share business intelligence with third-party manufacturers in an attempt to quell customer anger and satisfy orders. The cost ran into tens of millions.

Following this disastrous experience, BG continued with an SAP implementation but gave businesses the largest say in how the system was to be set up and implemented. This resulted in different SAP configurations in each of the operating country. BG expanded the IT division in order to maintain the complex global IT infrastructure and software.

## Finance – “Our days are numbers”

Table 1: Headcount and payroll data

FTE by Location					
Division	Department	EMEA	APAC	Americas	Function(s)
Drinks	Drinks	8457	5207	6361	
IT Services	IT	468	0	326	General IT and IT consulting
Logistics	Distribution	3174	0	2090	
Packaging	Packaging	2276	1697	1895	
Support Functions - HR	Payroll	35	24	29	
	Recruitment	47	23	52	
	Benefits	17	8	19	
Support Functions - Finance	Procurement*	15	15	15	Procurement
	General Accounting and Reporting*	227	115	184	Quarterly reporting and consolidations
	OBKR	521	0	304	Bookkeeping, reporting, cash allocation (UK), payments to suppliers (UK)
	Planning and Budgeting	32	9	17	Planning and budgeting with little updating and explanations throughout the year
	Tax	24	11	21	Tax planning and reporting
	Internal Audit	65	41	81	Internal audit
	Audit	82	56	85	Other general accounting functions

Payroll Expense by Division in Thousands (€)				
Division	Department	EMEA	APAC	Americas
Drinks	Drinks	354.331	173.627	246.584
IT Services	IT	31.142	0	20.461
Logistics	Distribution	132.984	0	81.019
Packaging	Packaging	95.360	56.586	73.460
Support Functions - HR	Payroll	1.466	800	1.124
	Recruitment	1.969	767	2.016
	Benefits	712	267	737
Support Functions - Finance	Procurement	1.380	1.280	1.331
	General Accounting and Reporting*	20.881	9.815	16.333
	OBKR	47.926	0	2.695
	Planning and Budgeting	2.944	768	1.509
	Tax	2.208	939	1.864
	Internal Audit	5.979	3.499	7.190
	Audit	7.543	4.779	7.545

\*These headcount numbers refer to full-time procurement roles. Most procurement in EMEA is done by line personnel, so "hidden" procurement headcount is estimated to be up to 60 FTE.

Table 2: Consolidated Balance Sheet (in Mio €)

	2019	2018
<b>Assets</b>		
Non-current assets		
Goodwill	2.001	2.258
Brand intangibles	2.602	2.992
Software intangibles	145	112
Property, plant, and equipment	988	1.002
Investment in associates	232	234
Deferred tax assets	11	12
Trade and other receivables	54	52
Other investments	7	8
	6.040	6.670
Current assets		
Inventories	822	688
Short-term investments	23	20
Trade and other receivables	1.549	1.111
Tax recoverable	30	28
Cash and cash equivalents	287	297
	2.711	2.144
<b>Total Assets</b>	<b>8.751</b>	<b>8.814</b>
<b>Liabilities</b>		
Current liabilities		
Trade and other payables	-1.709	-1.612
Tax payable	-277	-167
Short-term borrowings and overdrafts	-752	-638
Short-term provisions	-91	-80
Obligations under Finance leases	-24	-24
	-2.853	-2.521
Non-current liabilities		
Trade and other payables	-44	-34
Borrowings	-2.344	-2.299
Retirement benefit obligation	-571	-567
Tax payable	-170	-173
Deferred tax liabilities	-752	-744
Long-term provisions	-11	-10
Obligations under Finance leases	-52	-50
	-3.944	-3.877
<b>Total Liabilities</b>	<b>-6.797</b>	<b>-6.398</b>
<b>Net Assets</b>	<b>1.954</b>	<b>2.416</b>
Equity		
Share capital	250	250
Share premium account	992	1.025
Other reserves	23	23
Retained earnings	689	118
Equity attributable to equity holders of the parent	1.954	1.416
Minority interest	-	-
<b>Total Equity</b>	<b>1.954</b>	<b>1.416</b>

Table 3: Consolidated Income Statement (in Mio €)

	2019	2018
Continuing Operations		
Revenue	5.720	5.899
Trading costs	-2.796	-2.772
Selling and distribution costs	-1.704	-1.692
Administrative costs	-512	-494
1) Restructuring costs	-9	-13
2) Amortization and impairment of intangibles	-10	-8
3) Non-trading items	-16	-38
Profit from Operations	673	882
Exceptional item - software costs	-35	-
Profit Before Financing and Taxation	638	882
Investment revenue	24	22
Finance costs	-20	-17
Profit Before Taxation	642	887
Taxation	-160	-200
Profit from the Period from Continuing Operations	482	687
Discontinued Operations		
Profit for the period from discontinued operations	-	-
Profit for the Period	482	687
Attributable to:		
Equity holders of the parent	482	687
Minority interests	-	-
	482	687
Earnings per share		
From continuing and discontinued operations		
Basic	23,1p	45,8p
Diluted	26,3p	40,5p

## Benchmark Data

BG began to buy benchmark data from the American Productivity and Quality Center (APOC) 12 months ago. They stopped it when the business began to resist being shown unflattering comparisons with competitors and other comparable organizations. This is why only a limited set of data is available.

Sarah Goldman and Jonathan Stone, EMEA Regional Director, are both big believers in benchmark data because if used correctly, the data creates an incontrovertible case for change.

Table 4: Benchmark

Finance				
	BG	Top Quartile	Median	Bottom Quartile
Finance Costs as % of Revenue	2,02%	0,30%	0,70%	1,50%
Finance Costs per Finance	101.000 €	46.404 €	67.469 €	97.565 €
Days Sales Outstanding	75	25	35	45
Days to Close	20	3	7	22
IT				
Number of IT FTEs for managing the business of IT per \$1 billion revenue	12	4,9	6,3	8,8
Total IT budget as a percentage of revenue	1,50%	9,00%	1,40%	1,70%

Financial Ratios Compared to Competitors				
	BG	Anheuser-Busch	Coca Cola	Pepsi
Current Ratio	0,95	0,81	0,95	1,33
Quick Ratio	0,66	0,51	0,76	1,05
Inventory	6,96	13,21	4,48	7,57
ROE	24,67%	49,89%	30,02%	36,64%



## Key Personalities

There are a number of key individuals at EY as well as BG you need to know about. Below you will find information about key contacts including personal overview and background information that might be useful.

### Ernst & Young Contacts

#### *Robert Sandwich – Executive-in-Charge (Advisory)*

Robert, an experienced Advisory partner, has a deep understanding of financial transactions. He is known to be thorough and likes to check the details behind findings and the robustness of conclusions and recommendations before presenting to clients.

#### *Beverley Cornell – Client Service Partner (CSP) for Bigg-Glowbell*

Beverly is an experienced CSP who recently has taken on responsibility for BG. Until now, EY has completed only small amounts of work with BG. Beverley sees this as a great opportunity to establish a firm-wide relationship with BG and has prepared the ground well for your team. BG is being considered as a potential priority account for Advisory.

#### *Sam Reynolds – Quality Assurance (QA) Partner for Bigg-Glowbell*

Sam is the QA partner on the BG engagement. She has been involved in the initial discussions with the client and the development of the initial engagement letter. Sam has an eye for detail and is eager to drive a focus on quality throughout the team.

### BG Contacts

*Table 5: Contact List*

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Global Team	
George Bigg	CEO
John Bigg	Former CFO
Sarah Goldman	CFO
Herald Jerrand	Group Financial Accountant
Geoffrey Eccles	Group Chief Information Officer (CIO)
Pavel Jaworski (PJ)	Group Vice President (VP), Marketing
Eleanor Fitzgerald	Group VP, Human Capital
Olivia Merchant	Group Director, Strategy & Business Development
Ruby Cutman	Group Special Projects

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## Regional/Country Personnel

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Jonathan Stone	EMEA Regional Director
Chris Johnson	EMEA Finance Director
Sarah Wotherspoon	EMEA Sales & Marketing Director
Bob McTavish	EMEA Operations Director
Eddie Stobbert	EMEA Supply Chain Director
Paul Chapman	EMEA IT Director
Divya Gudka	NAR - Divisional Controller Packaging
Dennis Bittle	UK & Ireland - Manager Transactional Processing

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### *Group Level*

#### *George Arthur Bigg III – CEO*

*Personal overview* – George is a charismatic individual who enjoys socializing with key clients. George believes BG's reputation and relationship with its customers is its most important asset. He often intervenes directly in resolving client issues over quality of product or service level. He is an avid golfer who conducts most of his business out of the office and rarely keeps notes.

*Background information* – At 73, George does not have the appetite or energy for seismic change. He is planning to retire and sell his shares. However, the recent drop in share price has thwarted his plans. He is nonetheless a rational individual and has a strong commercial instinct. A compelling case for change could persuade him to take a more progressive view.

#### *John Bigg – former CFO and a current “consultant” to BG*

*Personal overview* – John Bigg does not possess leadership skills and vision. The consensus is that family connections and influence gained him a place on the board as CFO.

*Background information* – At the board level, John often was outmaneuvered by the powerful regional MDs and the VP of marketing and was largely ignored by the CEO. The regional MDs also employed regional Finance directors who, in turn, had country controllers reporting to them. Isolated from his own department, John focused on the development of the accounting policy and his role with numerous Institute of Chartered Accountants in England and Wales (ICAEW) committees.

#### *Sarah Goldman – CFO*

*Personal overview* – In her mid to late 30s, Sarah is widely viewed as a tough and ambitious leader. She has a reputation of turning around midsize companies and is highly respected in the investor community. BG, however, is a challenge on a different scale to anything she has dealt with before.

*Background information* – Sarah has the following mandate from the CEO and the investor community:

- ▶ Produce credible, timely financial results with no more surprises
- ▶ Focus the business on bottom-line profit and shareholder value
- ▶ Create a Finance function that leads by example on value, efficiency, and quality. After her meeting with Robert Sandwich, she wrote a note to herself and stuck it above her desk. It reads: “When dealing with the John Bigg legacy, we will align Finance around:
  - Value creation
  - Value protection
  - Value for money”

*Herald Jerrand – Group Financial Accountant*

*Background information* – Herald is responsible for consolidating and publishing financial and supporting nonfinancial information at the group level. He is also responsible for the Sarbanes-Oxley compliance. He chairs the quarterly due diligence process in which the regional controllers assert that, to their knowledge, there are no material weaknesses in either their financial controls or consolidation submissions. He also employs a head office consolidation team of 50 qualified accountants with strong spreadsheet and investigative skills.

Herald has three priorities:

- ▶ Achieve greater transparency and control over the Business Unit (BU) submissions to the quarter-end
- ▶ Follow through on errors caught in the post-close validation and build quality in at the source
- ▶ Create a single chart of accounts and standards around the record-to-close process

Herald does not have the resources or the business commitment to deliver on any of these priorities.

*Geoffrey Eccles – Group CIO*

*Personal overview* – Geoffrey graduated with a third-class honors degree in computer science.

*Background information* – Geoffrey was responsible for Project Universe, the common SAP project that was, in its early phase, subcontracted to Accenture. The IT department acted as a single point of contact with Accenture during the system’s design. Geoffrey argued that

the users would never agree on a common way of working, and technology was a tool to enforce standardization and efficiency.

Geoffrey often boasts that a single management report is hardly prepared without some input from his team. In order to offset costs, the IT contractors are sold externally during off-peak periods and Geoffrey is developing the initialization of a consulting practice.

*Pavel Jaworski (PJ) – Group VP, Marketing*

*Personal overview* – The combination of PJ's management and analytical skills, his insights into the market, and the former communist block's adoption of capitalist lifestyles led to rapid sales growth and the establishment of BG drinks as the No. 1 position in most countries. After the sudden death of the group vice president of marketing, PJ was appointed to the board within three years of joining the company. George III often mentions that PJ is the son he never had!

*Background information* – PJ firmly believes in analysis and market research. He has created the Marketing Analytics Unit (MAU), consisting of some of the finest young minds in the business. In addition to market analysis, the MAU estimates product profitability and plans and budgets for marketing campaigns, promotions and product innovation programs. PJ insists that the local Finance functions reconcile annually back to his figures, which are used as the basis for board-level discussions on sales and marketing.

*Eleanor Fitzgerald – Group VP, Human Capital*

*Personal overview* – Eleanor is a charming and personable character with a deep and sincere interest in people. Eleanor is a family friend of the Bigg family.

*Background information* – Eleanor is responsible for:

- ▶ The BU HR departments, which run recruitment, payroll, learning and development, and performance management and reward
- ▶ Talent management and succession planning
- ▶ Organization design
- ▶ Diversity and inclusion programs
- ▶ The employee feedback survey

Eleanor is increasingly concerned about the people issues across the business and has five main areas of concern:

- ▶ The recent poor scores on the employee survey, particularly regarding trust in leadership, business direction, and confusion about accountability among the BG leadership

- ▶ The lack of alignment at the board level
- ▶ The age of the workforce
- ▶ Difficulties in recruiting people with the right skills
- ▶ Multiple change initiatives have left staff cynical and uncooperative about any further business change.

*Olivia Merchant – Group Director, Strategy and Business Development*

*Personal overview* – Olivia is a London School of Economics (LSE)-trained, highly strategic thinker. She joined BG from Unilever, where she was responsible for impressive growth in the “Healthy Living” category.

*Background information* – Olivia has invested in understanding the company situation, market conditions, forecasts, etc. Her view is that the future of BG is in diversification of products, channels, and markets. She believes that BG would be best served by investing now for better long-term results.

The most immediate challenge presented to Olivia relates to the history of business transactions that have been made by BG and subsequently failed to deliver benefits. Olivia is keen to understand the nature of these previous acquisitions and resolve the key issues that prevented a successful integration prior to pursuing her development strategies.

*Ruby Cutman – Group Special Projects*

*Personal overview* – Ruby Cutman is an experienced, hard-hitting program delivery expert who has been brought on board by the CEO with a mandate to shake up the way the organization manages its portfolio of change programs.

*Background information* – A series of strategic projects during the last couple of years has failed spectacularly with no real benefit or return on investment to BG. Ruby has reached the conclusion that the level of program management expertise and maturity in the organization is extremely low. There is very little understanding of benefits management, change, or accountability for the lack of results. Ruby is very concerned about these findings and is in the process of setting up a workgroup to establish exactly what is needed to improve the situation and turn it around.

### *At Bigg-Glowbell regional/country level*

#### *Jonathan Stone – EMEA Regional Director*

*Personal overview* – Jonathan, 38 years old, has been with Bigg-Glowbell for 18 months. He is a Master of Business Administration (MBA) Graduate from Harvard Business School specializing in strategic management and supply chain. He transformed a decentralized organization into a fully centralized one.

With his rich experience and a broad background in procurement, Jonathan is considered an expert in the areas of strategic sourcing, process standardization and optimization, and spend management.

*Background information* – At BG, Jonathan's emphasis is on strong cross-functional relationships, communication, knowledge-sharing, and close contact with employees. Since he assumed his position at BG, Jonathan has tried to introduce a more open, integrative, and communicative approach to the company.

At the board level, Jonathan quickly gained acceptance due to his excellent reputation and charismatic personality. There are high expectations of him being able to increase profitability in the EMEA region, primarily by reducing operating costs while maintaining the high level of growth in Eastern Europe. He is very much aware that his success at BG is dependent on this happening in the next two years.

#### *Chris Johnson – Finance Director EMEA*

*Personal overview* – Chris Johnson has come up through the ranks in BG over the past 20 years and has built a strong network of country Finance controllers. As powerful regional head, Chris has often led the other regional FDs in taking a stand against John Bigg and his numerous iterations of the global accounting policy.

Chris is also part of Jonathan's central Regional Coordination Team and therefore feels under more pressure than ever before at BG. Despite his resentment of Jonathan Stone, Chris is highly aware of the need to improve performance and improve cash flow. He is doing his best to find the budget needed to grow the organization while keeping control of limited cash reserves.

#### *Sarah Wotherspoon – Director of Sales and Marketing EMEA*

*Personal overview* – Sarah joined BG 10 years ago following an extremely successful career at a major European advertising agency. She has spent most of her time with BG managing the UK sales and marketing team.

*Background information* – Sarah has been in her central role for 12 months. After spending time to understand the problems she is grappling with, she is now focused on the coordination of the countries' sales and marketing activities through three main projects:

- ▶ Customer KPIs: measuring and understanding profitability per customer, sales effectiveness, and marketing spend ROI
- ▶ Customer Strategy and Segmentation: divesting or improving the profitability of underperforming accounts; introducing differentiated service levels; targeting and acquiring more profitable market segments
- ▶ Customer Experience: increasing customer satisfaction and loyalty by improving perceptions of BG and the efficiency of how they are serviced

*Bob McTavish – Director of Operations (Production and Distribution), EMEA*

*Personal overview* – Bob is an engineering graduate from the University of Edinburgh. He is passionate about precision and quality. The recent failures in quality management concern him.

*Background information* – Bob is mainly concerned that the growing product range and frequent changes to specifications and planned volumes are affecting quality. To compensate for this, he has increased the level of supervision at key locations and created a Global Quality team, which investigates quality issues and audits production standards.

Bob has found it difficult relating what he knows about the business to his cost center reports. The accruals, recharges and head-office cost allocations in particular mean nothing to him. Bob's biggest worry is that he will be asked to explain the numbers at a management meeting. So far, that has not happened and he has been spared the embarrassment.

*Eddie Stobbert – Director, Supply Chain EMEA*

*Personal overview* – Eddie is young and ambitious. He has been with BG for more than six years. He is a seasoned procurement professional with strategic sourcing expertise and is extremely well respected in the UK supply chain market.

Eddie is renowned within the BG organization for his excellent people and cross-functional engagement skills. His performance is greatly appreciated and supported by most of the EMEA leadership team, with the exception of Bob McTavish.

*Background information* – Eddie strongly believes that BG's performance around demand planning and inventory levels could be much better. His attempts to persuade BG's operations managers to move away from a policy of hoarding inventory to a more streamlined, "just-in-time" approach have not been successful.

Eddie is convinced that the lack of clarity around demand management is the principal cause of the frequent stock-outs, which in-turn affects BG's customers. He is also concerned about the ineffective supply chain performance metrics, particularly around core manufacturing process efficiency. Given the increasing financial pressures from shareholders, Eddie is inclined to adopt a tough customer/supplier approach to relationships. He has strong views on how procurement can help to drive cost savings.

*Paul Chapman – Director, IT EMEA*

*Personal overview* – Starting as a trainee programmer in 1981, Paul has come up through the ranks at BG. By the late '90s, he was responsible for much of the common IT infrastructure implemented across Europe. One example of Paul's vast knowledge of BG applications was his management of the data migration in 2007.

*Background information* – Since the failure of Project Universe, Paul has focused on supporting each region with a local SAP installation. His teams are in high demand across Europe and there is a significant backlog of requests for further local development.

*Divya Gudka – Divisional Controller Packaging Products, NAR*

*Personal overview* – Divya is a hands-on accountant who knows everything there is to know about the Packaging Products division in NAR. She has a reputation for working late and making things happen. Her staff lives in fear of her but respects her immense knowledge and expertise.

*Background information* – Divya has retained high status with both Marketing and Operations. Her ability to fix things is legendary. She acts as both the local controller and manages the basic BU bookkeeping functions (OBKR). She manages about 300 people. Divya attends all the local management meetings and somehow finds the time to submit the quarterly results to Herald Jerrand more or less on time.

*Dennis Bittle – Manager, Transaction Processing, UK and Ireland Drinks Business Unit*

*Background information* – Dennis runs the OBKR in a converted warehouse outside the town of Cardiff in Swansea. The primary responsibility of the department is to pay suppliers and allocate cash received from clients.



Procurement, which sits within divisional operations at another location, is responsible for the maintenance of the supplier master file details. There is little face-to-face contact between the OBKR and Procurement.

# Task Description - Case Study

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## Case 1 – Shared Service Center (SSC)

After the new CFO of Bigg-Glowbell, Sarah Goldman, took over from John Bigg, she discovered that the cost of the division *Support Functions – Finances* increases steadily despite decreasing revenues. This includes the sub-lines *Planning and Budgeting, Tax, Internal Audit, and Other*.

To strengthen BG´s market position and due to potential cost savings, Sarah is considering launching a SSC. She wants to settle the SSC in the most attractive region of BG´s markets (EMEA, APAC, Americas). In the upcoming board meeting she wants to present her idea based on a meaningful and comprehensible analysis of the existing data. Sarah commissions you and your team for this important project.

## Activity 1.1 – Definition, Goals, and General Influence Factors for Selecting an SSC Location

Please prepare a short presentation that includes answers to the following questions:

- ▶ What is Shared Services?
- ▶ Which objectives do we pursue by setting up a Shared Service Center?
- ▶ Which general influence factors do we have to consider for selection of a SSC location?

[Hint: Discuss in teams, be prepared to argue your thoughts using a presentation]

## Activity 1.2 – Benchmarking Total Costs of Finance

The board has specified a clear objective target and claims reduction of total costs for the Finance function down to 20 Mio. €.

- ▶ Is this objective realistic and achievable?
- ▶ What potential cost reductions can be achieved in comparison to the top quartile of the peer group?

- ▶ What potential cost reductions can be achieved in comparison to the top quartile of Finance functions with SSC?
- ▶ Compare the Finance function with the median of the peer group.

### Activity 1.3 – SSC Region

BG management board committed the SSC as part of the Europe region. A further request of the board is that 10% of the employees of each region are not included in the SSC and have to remain in the regions.

During the analysis, the EY-team identified four locations. Create a calculation of the labor costs for each region for the possible location of SSC. Make a decision based on this calculation.

[Hint: Use additional information provided]

### Additional Information

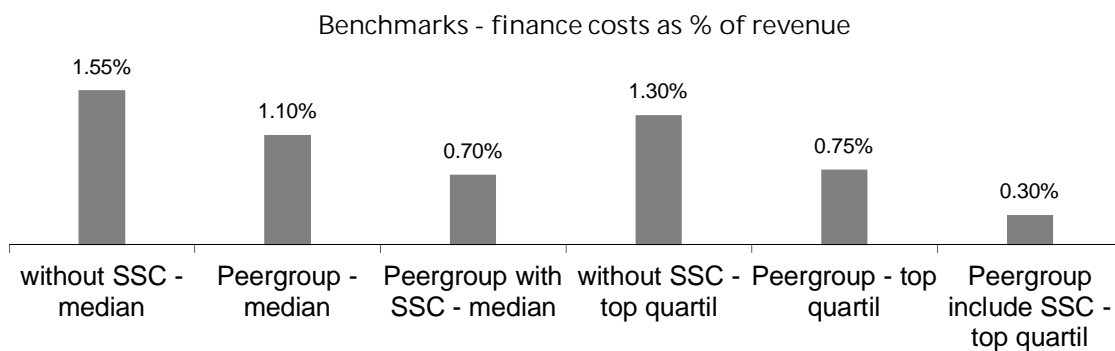


Figure 8: Benchmarks

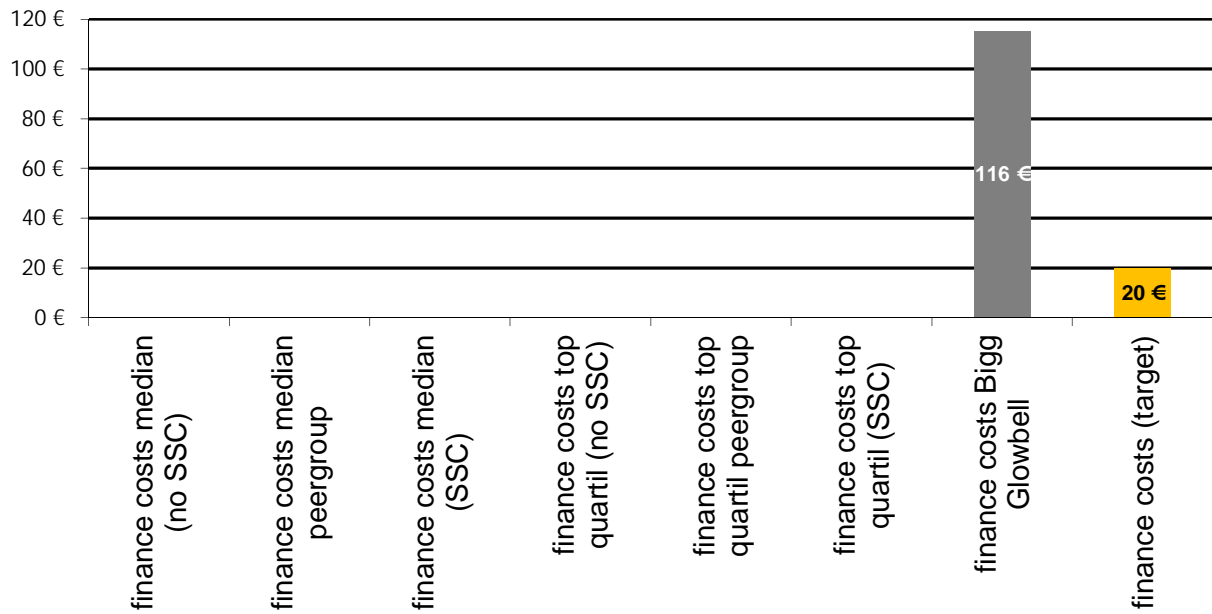


Figure 9: Presentation model for cost comparison

Table 6: Possible SSC locations

Regions of SSC-shortlist	
Country	region
Northern Ireland	Belfast
Hungary	Budapest
Slovakia	Bratislava
Czech Republic	Brno

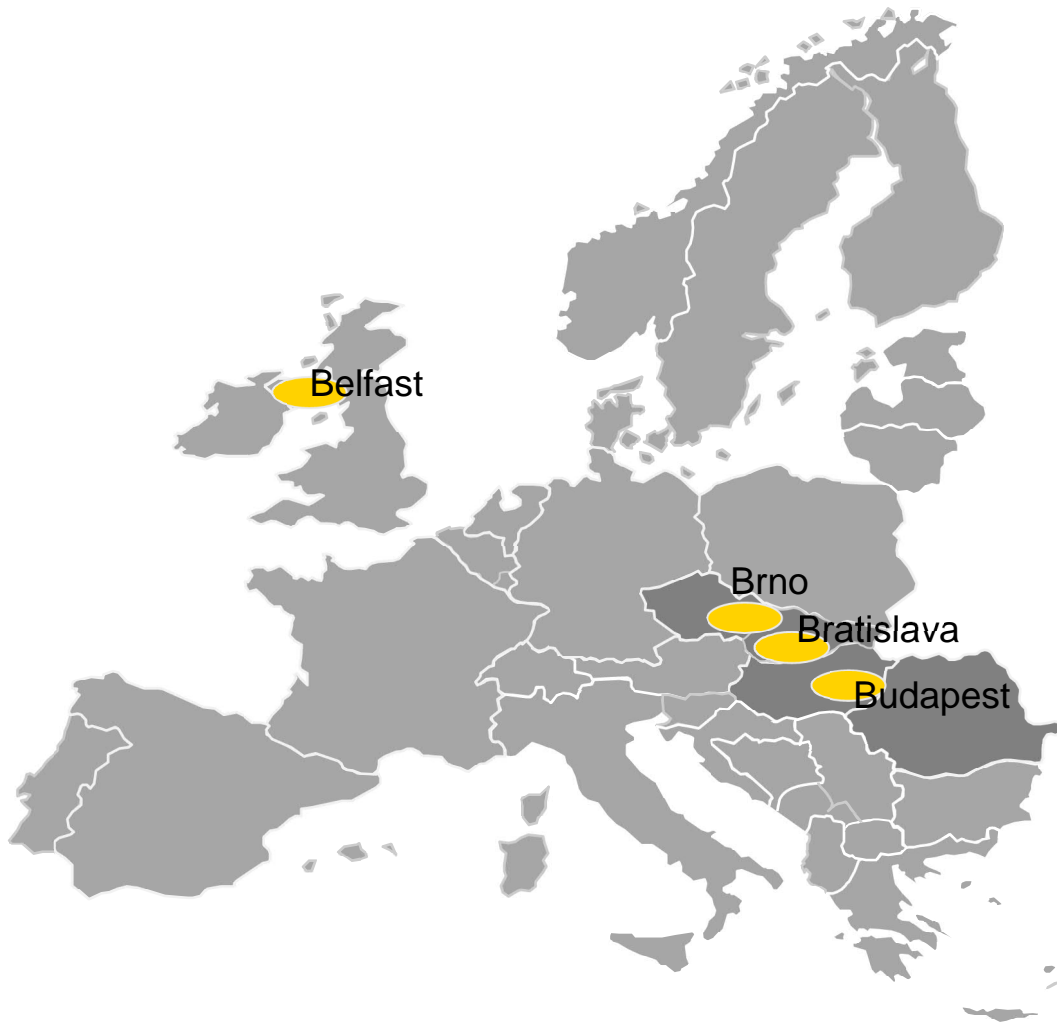


Figure 10: Possible SSC locations

Table 7: Data from EY data collection tool

Regions of SSC-hortlist	
Region	Average labor costs (per month)
Belfast	1.812,5 €
Budapest	1.218,0 €
Bratislava	1.036,8 €
Brno	1.377,5 €

## Case 2 – Stakeholder Map

In every project environment, the cooperation with different stakeholders is a critical factor of success. The general objective is to understand the different goals and motivation of stakeholders and provide information targeted towards each of them to reduce resistance and enhance the willingness of cooperation.

BG engages Ernst & Young with the assessment of a financial SSC. Suggest a form and layout for a communication plan. Subsequently, you are commissioned with the analysis and presentation of Bigg-Glowbell's key stakeholders.

### Activity 2.1 – Stakeholder Analysis Definition

Please prepare a short presentation that includes answers to the following questions:

- ▶ What is a stakeholder?
- ▶ Who are key stakeholders and what is their role within the project organization?
- ▶ Create an approach to assess project environment and stakeholder communication.

### Activity 2.2 – Stakeholder Map

Identify BG's key stakeholders. On slides, create a stakeholder map for the project of implementing a SSC.

### Activity 2.3 – Level of Influence

To which degree of influence can the identified stakeholders exert in implementing and sustaining the change and their level of support for change?

### Activity 2.4 – Communication Plan

Suggest a form and layout for a stakeholder communication plan. Use this layout to create a communication plan for the identified stakeholders. Think of techniques to involve and inform the key stakeholders throughout the project phase.

## Case 3 – Return on Capital Employed (ROCE)

After Beverley Cornell's (EY TAS) last meeting with the new CFO Sarah Goldmann, she identified several initial challenges for Sarah's new role:

Sarah should come up with an analysis of the situation. She also needs to review the business strategy and understand the business model along with the risks and controls. In addition, Sarah has to ensure that the information provided is in line with the drivers and she needs to tell the CEO what his priorities should be and why.

The main concern in solving these issues is that the transparency of the business model and the process landscape is very complex so that a quick review is almost impossible. Therefore, she should try to identify and analyze the key business drivers in major functional areas and their impact on financial figures. The product range should be an appropriate first step to provide Sarah an understanding of those key business drivers while the Return on Capital Employed (ROCE) should give a first impression of Bigg-Glowbell's general situation. A closer look at the figures of the several product lines also provides informative input.

Sarah already has some information regarding the group controlling. Usually, eighty percent of the assets are assigned to the purchase and production functions of the drinks division. The product range of BG includes carbonates, fruit juices, mineral water, alcoholic drinks, and third-party products. Herbal Elixir is part of the Carbonates sector and is the basis upon which BG was built on (some of the group's higher management even says that it is the only product which could be seen as the major corporate identity). Carbonates generate 15% of the group's profit and 30% of the capital is bound in this sector. The Third-party products generate the same profit, but only need one sixth of the capital as compared to Carbonates (in percent). Surprisingly for Sarah, mineral water and alcoholic drinks create the same profit. However, alcoholic drinks tie up 5% more capital than mineral water. The Capital Employed of the Fruit juices division is the same as that of carbonates but profits generated are 5% lower.

Some quick wins can be identified by comparing the ROCE of the sectors and the costs of capital. Also, some benefits can be found by using the Weighted Average Cost of Capital ( $WACC = \text{share of equity in total value} * \text{equity rate} + \text{debt rate} * \text{cost of debt} * (1 - \text{tax rate})$ ). The current cost of equity is 11%, the cost of debt is 8% and the corporate tax rate is 20%. If this is successful, Sarah might involve EY in major organizational changes that could be initiated taking into consideration departmental structure and leadership responsibilities.

### Activity 3.1 – Division's ROCE

Calculate the Return on Capital Employed (ROCE) for the drinks division of Bigg-Glowbell for the financial years 2018 and 2019 (Sector's ROCE = Profit : (Capital Employed\*80%)).

[Hint: The Earnings Before Interest and Tax (EBIT) should reflect the operating profit that is generated by the drinks division of BG]

### Activity 3.2 Sector's ROCE and division's WACC

Due to lack of time, you are only able to calculate the ROCE of three divisions. Which ones would you choose and why? Compare the obtained values to the cost of capital. In groups discuss what the resulting spreads reveal. How can the spread be interpreted?

### Activity 3.3 Risk Drivers

Identify possible risk drivers. Make reasonable proposals how to react on negative spreads.

[Hint: Draw the issue in a simple chart. Use Profit (ROCE) and Capital Employed as axis labeling]

### Activity 3.4 Year-on-Year changes of ROCE

Take the drinks division's ROCE of 2018 into account. Why is it advisable not only to consider this year's ROCE to compare it to the cost of capital but also considering last year's ROCE? Discuss how misguidance can be avoided in this way?

[Hint: Assume unchanged WACC]



## Case 4 – Business Process and Internal Control System (ICS) Analysis

By combining the knowledge of financial, strategic, operational, and compliance risks with the deep internal controls experience, Beverly Cornell (EY TAS) wants to help the new CFO, Sarah Goldmann, to assess the internal controls. She additionally plans to develop a risk-focused internal control program that will help her to enhance the process and control efficiencies and address the companies reporting and regulatory compliance needs. After Beverly's last meeting with Sarah, she has the following understanding of the main financial processes of Bigg-Glowbell:

### Purchase to Pay

Procurement resides within Operations. The process is characterized by a large number of suppliers with many different terms and conditions that is very difficult to overview. There have been issues in the past as inappropriate or unauthorized vendors have been used to procure goods/services. This is mainly because the system access right restrictions in order to add or change the vendor master file are not in place.

A Purchasing strategy and code of conduct policy have been developed. However, this has not been clearly communicated and implemented in the company. As a consequence, there have been delivery and production delays in the past. Product categories have been established for certain types of purchases; but are not consistent. Furthermore, multiple vendor masters exist. Although some locations within the region have a consolidated database, it is not reliable and up to date. Majority of transactions follow a manual and paper based requisition process.

Operational discipline is poor: most of supplier invoices are validated and processed manually. Receipts are not consistently captured in the system and significant delays in logging receipts in the system occur. Approvals are granted manually and not tracked using a system. Therefore, supporting documentation is dispersed and not easily accessible. In addition, access to payment generating functions and creditor statements is restricted to appropriate persons.

Goods received are patchy: 30% of orders are not registered nor have an incorrectly recorded Goods Received Note (GRN) at the time of the month-end-close. Sometimes there are serious delays of submitting documents to the Finance department which leads to a delay in payment to creditors.

There are stock accounting issues with an apparent void of 4.3 million € in the last financial year. There are also significant write-offs due to obsolete stock (product past its shelf life).

## Order to Cash

The process is characterized by a high amount of customers and complex terms and conditions, including volume discounts, loyalty rebates, and cash incentives to pubs. Standardized terms and conditions are not defined and a strategic customer management system as well as clear policies and processes for pricing and discount approvals are not in place. Decision making rights for pricing discounts are designed to respond to customer with speed and to build relationship with customers. Subsequently, defined price lists do not exist.

Credit memos have been processed without authorized approval and fictitious postings of cash receipts that have been made to the general ledger are noted. Sales representatives are working on a commission basis. Formal credit checks for new customers are only conducted when the client is in news due to unwanted reasons such as bankruptcy. Furthermore, each organization manages credit checks independently.

Most orders are on credit, but some customers operate cash on delivery. Twelve percent of invoices raised have credit notes. The most popular credit notes are due to incorrect pricing (10%) or breakages/returns (9%).

The customer set-up process is performed manually. Customer responsibilities are not defined within the company as several employees are in charge of the same customer with only limited customer information sharing. Usually, orders have to be forwarded in a written form, but some orders are taken by phone without further documentation. A detailed inventory tracking within all facilities is not in place.

The number of customer complaining about wrong deliveries or incorrect charges is increasing. Daily Sales Outstanding (DSO) is running at 75 days. Invoice procedures and approval policies exist and are followed. However, these have not been systematically implemented. The main invoicing process involves paper invoices. Also, the credit function resides within Sales.

## Record to Report

The Record to Report process has been fraught with issues. In practice, standard accounting policies, processes, and procedures are inconsistent and not documented. There also were problems noted when PwC had audited these processes in the past.

Local accounting units regard that the group accounting policy is advisory rather than mandatory. Currently multiple close calendars and cut-offs are in place, which are monitored locally. Roles and responsibilities are assigned, but confusion and overlap exists.

When group policy is followed even within the same accounting unit, it is frequently interpreted and applied in a variety of ways. The ability to report in both US General Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) is poor and leads to significant audit overruns. Last year, there were two material adjustments during the audit on the stock account and the capital expenditure (CAPEX) account. In the latter case it was found that maintenance costs had been incorrectly classified as capital expenditure to the tune of 20 million €. This led to a 20% drop in share price and led to John Bigg's downfall.

Sub-ledger data is reformatted and manually entered. Journal entries are not correctly calculated and not always submitted on time. Data from sub-systems and external sources is not accurately and completely transmitted to and recorded in the General Ledger on a timely basis. Consolidation process is manual and complex with high degree of adjustments and reconciliations.

As the reporting process relies on fragmented systems with redundant and inconsistent data and extensive Excel-based reporting, the staff often works late into the night in order to perform manual adjustments and reconciliations such as the elimination of inter-company variances. The quarterly management report can be up to 145 pages of financials at the regional level and mainly addresses actual performance against budget.

## Planning & Budgeting

The Planning & Budgeting process is regarded as a routine financial ritual and is done for reasons that are no longer apparent. The business as a whole does not understand the planning and budgeting process. Responsibility for target setting and achievement are partly defined, but not clearly communicated. A common understanding of company vision and performance management processes is missing.

Budgets and forecasts are not prepared in regular cycles and templates tend change frequently. The output provides little or no benefit to the organization as planning is rudimentary and reporting is limited to external financial statements. Metrics and Driver selection is unfocused with little correlation between drivers and financial performance.

There also is a lack of standard technology and definitions of data. This leads to inability in comparing and integrating the planning and budgeting process as well as with the business performance reporting. The process is spreadsheet-based and time-consuming. On an average, the accuracy of forecasting is 15%. There are few re-forecasts during the course of the financial year. This is usually explained by reference to customers changing their buying patterns following a hot or cold spell of weather. So there is little point trying to forecast accurately. No attempts are being made to improve accuracy of the management reporting process.

#### Activity 4.1 – Business Process and Internal Control System (ICS)

Based on the described situation, identify the main risks within one of the four core business processes. Suggest a redesign of the selected core process. Which controls should be implemented to mitigate the identified risks?

#### Activity 4.2 – Presentation Preparation

Record your suggestions on slides and be prepared to present your suggestions to the group.

[Hint: Use a Flow Chart and a Risk Control Matrix]

# Case Study Finance Transformation

## Acronyms

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APAC	Asia-Pacific
APQC	American Productivity and Quality Center
BG	Bigg-Glowbell
BU	Business Unit
CALA	Central America and Latin America
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CSP	Client Service Partner
DSO	Daily Sales Outstanding
EBIT	Earnings Before Interest and Tax
EMEA	Europe, the Middle East, and Africa
EY	Ernst & Young
FD	Financial Director
FTE	Full-Time Equivalent
GAAP	General Accepted Accounting Principles
GRN	Goods Received Note
HR	Human Resources
ICAEW	Institute of Chartered Accountants in England and Wales

IFRS	International Financial Reporting Standards
IT	Information Technology
LSE	London School of Economics
MAU	Marketing Analytics Unit
MBA	Master of Business Administration
MD	Managing Director
NAR	North America Region
OBKR	Office of Bookkeeping and Reconciliation
PI	Performance Improvement
PwC	PricewaterhouseCoopers
QA	Quality Assurance
ROCE	Return on Capital Employed
SSC	Shared Service Center
TAS	Transaction Advisory Services
VP	Vice President
WACC	Weighted Average Cost of Capital