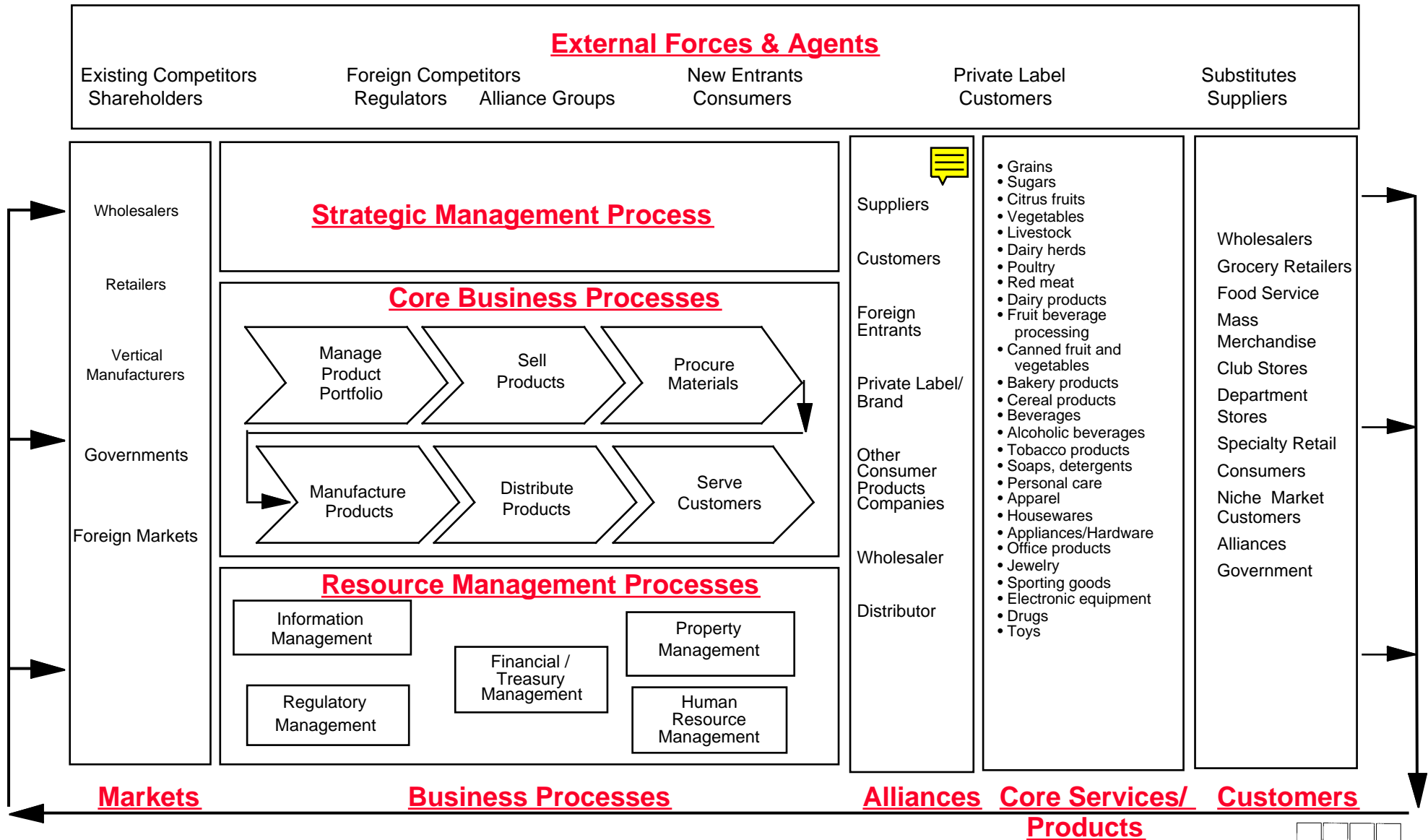


Consumer Products - Main Menu

Entity-Level Business Model

Home Page



Consumer Products Business Model



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INTRODUCTION

How to Use this Business Model



General

As part of your audit you will prepare a business profile and a risk profile for your client. The principal objective of preparing these is to develop an understanding of the effectiveness of the design and management of the client's business and of the critical performance related issues it faces to:

better evaluate audit risk

discuss the issues arising and potential improvement opportunities with the client.

The business model is a tool developed by industry experts to assist you to prepare these profiles for your consumer products clients. Clients' businesses are complex and diverse and so this business model is provided as a starting point for investigating and ultimately understanding your client. It provides, at a high level, an outline of a typical client in each segment. However, you can be sure that your client will be different and that those differences will matter. The business model will provide an overview to help you to plan how to gather information on your client. It may even be useful as a template for documenting your client's business and for making comparisons/contrasts. However, you should beware trying to fit your client to the business model; it will not work.

The most important factor to bear in mind is that it is the analysis of the data collected that is important. At each stage ask yourself the following key questions:

- does my client's strategy and the business relationships it has formed address the external forces in the industry
- does the design of the business processes established by my client support its strategic objectives
- has management gained a complete perception of the business risks that could affect achievement of the strategic/business process objectives
- are management's assumptions about the significance of those risks reasonable
- does the design of the control framework established by my client adequately address the risks identified
- has management derived a set of critical success factors and key performance indicators which monitor progress towards its objectives and management of the risks

If you have understood your client's business well enough to answer these questions, you will have gained the following information in support of your audit opinion:

- an understanding of the inherent risk facing your client's business
- an understanding of the design and operation of your client's control structure and its information systems (both financial and nonfinancial)
- an understanding as to what has really happened to your client's business during the year as a background to its results

You will also have gained insights into areas where the client's business design may not be optimised. When you add to this the information gained from benchmarking the client's performance against similar organisations, you should be able to identify areas where the client may be able to improve its performance.

PROCESS ANALYSIS TEMPLATE

A two-page process template is used throughout this business model to document the strategic management, core business and resource management processes. On the following pages, the components of the template are explained.

Process Analysis Template



Process Objectives

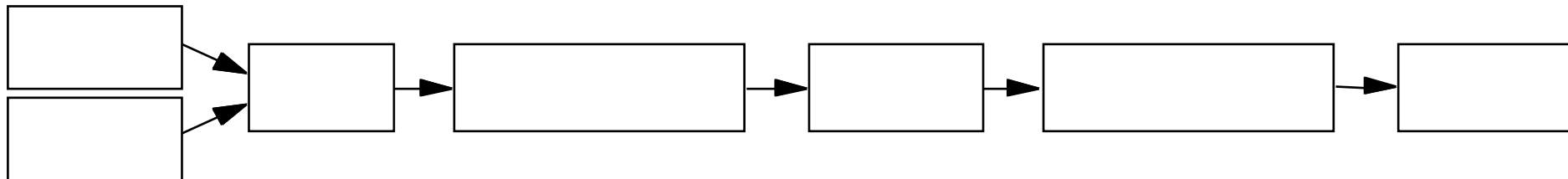
The objectives of the process are statements that define the direction needing to be taken with respect to the process. Objectives often relate to items such as customer satisfaction, efficient use of resources and compliance with applicable regulations.

Inputs

The inputs to a process represent the elements, materials, resources, or information needed to complete the activities in the process.

Activities

The activities are those actions or sub-processes that together produce the outputs of the process. For some processes, arrows are omitted due to the nonsequential nature of the activities.



Outputs

The outputs represent the end result of the process - the product, deliverable, information or resource that is produced.

Systems

The systems are collections of resources designed to accomplish process objectives. Information systems produce reports containing operational, financial and compliance related information that make it possible to run and control the process.

Classes of Transactions

The classes of transactions are data and information that are related to the process for use in one or more reports to management or third parties. The classes of transactions, which are broken down into routine and nonroutine transactions and accounting estimates, provide a linkage from the process to the audit procedures.





Risks Which Threaten Objectives

A process's risks are the risks which may threaten the attainment of the process's objectives.

Controls Linked to Risks

Controls are the policies and procedures, which may or may not be put in place, that help provide assurance that the risks are reduced to a level acceptable to meet the process's objectives.

Critical Success Factors (CSFs)

Critical success factors (CSFs) are the prerequisites and areas of dependency for a process to be successful. CSFs may be inputs, parallel or supporting activities or aspects of a business's philosophy or infrastructure necessary to ensure the proper delivery of the process.

Key Performance Indicators (KPIs) Linked to CSFs

Key performance indicators (KPIs) are quantitative measurements, both financial and nonfinancial, of the process's ability to meet its objectives through trend analyses within a company or benchmarking against a peer of the company or its industry. The KPI's listed are not all of the KPI's that exist relative to each process, but rather are examples which the company may or may not measure. While most KPI's can be linked to CSFs, this may not always be the case.

Other Symptoms of Poor Performance

Other symptoms of poor performance represent other evidence which may exist that indicates the process may not be operating to its most effective level. The items listed here should lead to performance improvement opportunities listed below.

Performance Improvement Opportunities

Performance improvement opportunities are areas for performance or process improvement. This improvement may be achieved internally by the client or through KPMG or other third-party assistance.



CONSUMER PRODUCTS

ENTITY-LEVEL BUSINESS MODEL

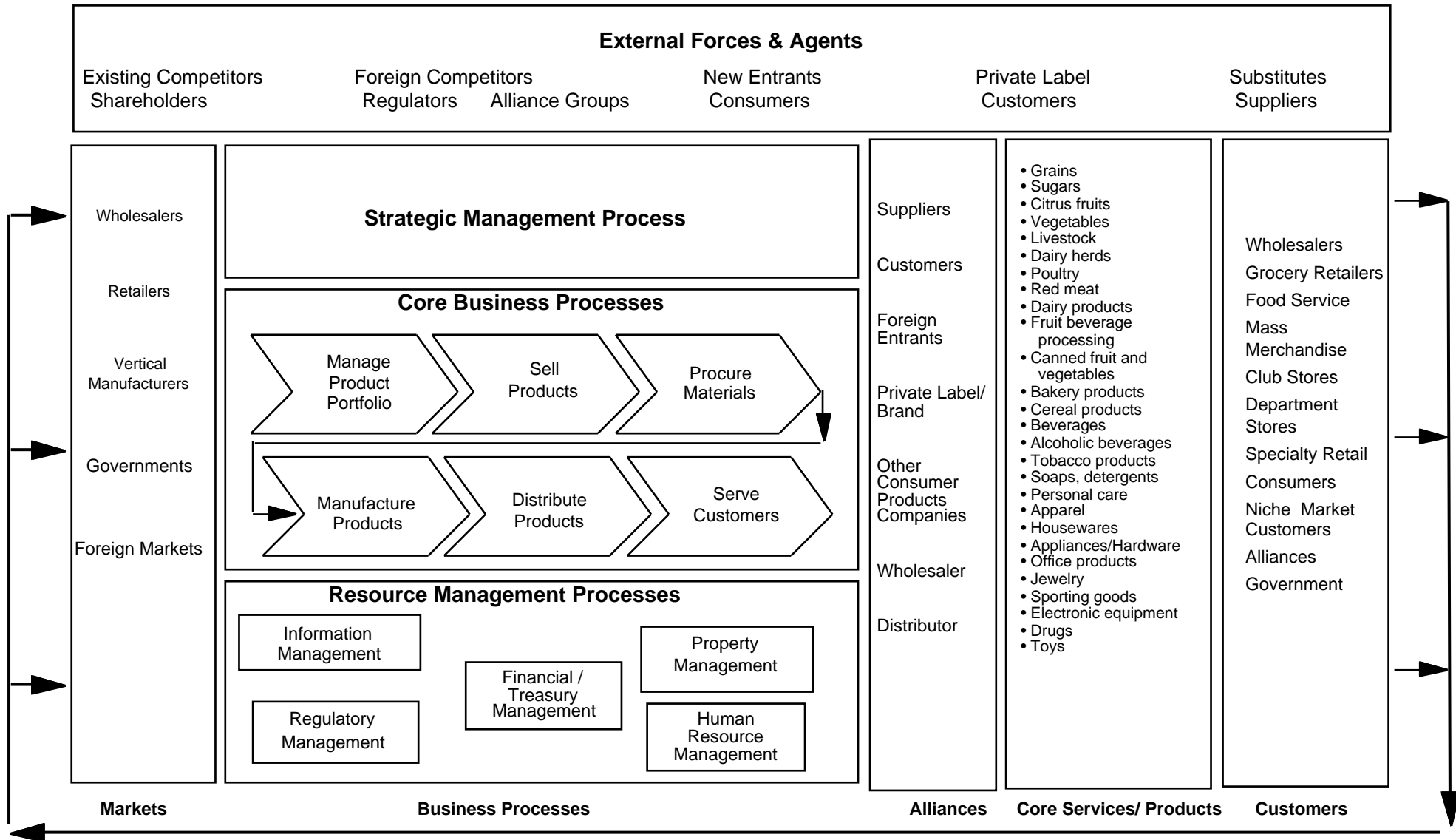
Entity–Level Business Model



As shown on the next page, the entity–level business model is used to describe the interlinking activities carried out within a business entity, the external forces that bear upon the entity, and the business relationships with persons outside the entity. The items included in the entity–level business model include the following components:

- External forces and agents are those factors, pressures and forces from outside the entity that often are threats to the attainment of the entity’s objectives.
- Markets/formats are the segments of an industry that are applicable to the entity. Formats identify the design and location of the facilities.
- The strategic management process is the process that:
 - develops the entity’s mission,
 - defines the entity’s business objectives,
 - identifies the business risks that threaten attainment of the business objectives,
 - manages the business risks by establishing business processes, and
 - monitors progress toward meeting the business objectives.
- Core business processes are the processes that develop, produce, sell and distribute an entity’s products and services. These processes do not follow traditional organizational or functional lines, but reflect the grouping of related business activities.
- Resource management processes are business processes that provide appropriate resources to the other business processes.
- Alliances are established by an entity to
 - attain business objectives,
 - expand business opportunities, and
 - reduce or transfer business risk.
- Core products and services are the entity’s products and services.
- Customers involve relationships that are usually the entity’s primary focus.

Consumer Products Entity-Level Business Model



STRATEGIC MANAGEMENT PROCESS

Strategic Management Process



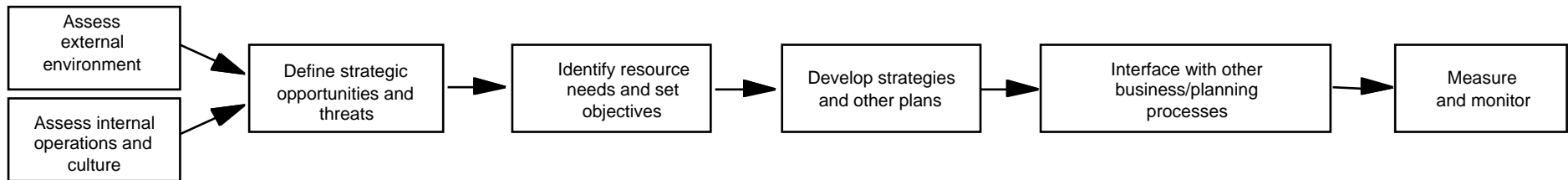
Process Objectives

- Provide clear strategic direction to the business
- Determine strategic objectives (e.g., profitability/market growth)
- Identify and allocate resources necessary to execute business strategy
- Measure business performance against strategic objectives
- Promote culture of continuous change/improvement

Inputs

- Economic factors
- Markets
- Historical performance
- Competitor research
- Consumers
- Substitutes
- Stakeholders
- Management/employees
- Suppliers
- Prior business plans
- Legislation
- Political influences
- Technology

Activities



Outputs

- Mission statement
- Strategic objectives
- Organisational structure
- Policies
- Customer needs identified
- Target markets identified
- Risks and sensitivities
- Financial projections
- Clear allocation of responsibilities
- Capital requirements
- Human resource/needs
- Training programs
- Performance reviews
- Competitive position statement
- Business plan
- Communications strategy

Systems

- Budgeting/forecasting
- Executive information systems
- Competitor database
- Project management system
- Human resource management system

Classes of Transactions

- Routine**
- None

- Nonroutine**
- Merger and acquisition costs
 - Non routine investments (eg capital expenditure)
 - Third party training contracts
 - Executive compensation contracts
 - Divestitures

- Accounting Estimates**
- Write off of existing assets
 - Provision for future costs
 - Recognition of intangible assets



Risks Which Threaten Objectives

- Poor communication of strategy and implementation
- Poor operating capabilities/lack of appropriate resources
- Inadequate coordination between resource management and core business processes
- Missed opportunities/unforeseen threats (new competitors)/changing customer needs
- Loss of focus or inability to foster change

Controls Linked to Risks

- ➡ Formal board approval of strategy and establishment of targets and objectives through the organisation to support its delivery
- ➡ Competitive benchmarking, customer surveys and performance evaluation
- ➡ Regular board review of performance against strategic plan using balanced scorecard approach
- ➡ Monitoring and responding to external forces
- ➡ Planned performance reviews; disciplined change management process

Critical Success Factors (CSFs)

- Creating and sustaining an appealing proposition to target customer/markets
- Maximise stakeholder value
- Successful change management
- Maximise return on capital
- Adequate resource management processes

KPIs Linked to CSFs

- ➡ Market share; customer surveys
- ➡ Share price; employee surveys; analyst ratings
- ➡ Percent completion to schedule; improvement in affected process KPI's
- ➡ Return on equity; return on assets
- ➡ Satisfaction surveys of internal customers

Other Symptoms of Poor Performance

- Unclear direction
- Lack of employee involvement

- Undefined responsibilities
- Consistent failure to introduce new products/lines

- Weak market position
- Poor financial results

Performance Improvement Opportunities

- More rigorous planning and communication
- Visioning or needs assessment analyses

- Introduce performance management systems
- Balanced scorecard

- Merger and acquisition assistance
- More detailed market and competitor research to identify improvement opportunities



CORE BUSINESS PROCESSES

Consumer Products Core Business Processes

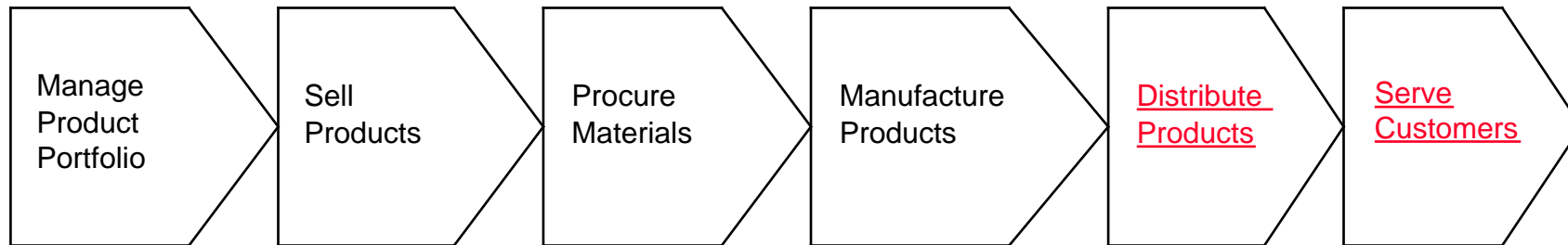


The model is structured in a simplified supply chain format with six core processes, four of which are subdivided into two sub-processes.

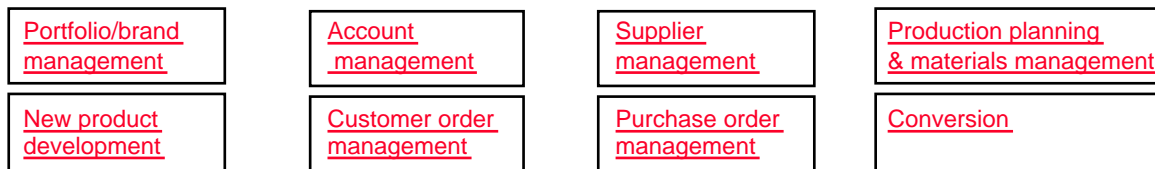
The linear nature of the graphics should not imply that these processes always take place sequentially. Indeed many of the activities detailed within the model occur on a continuous basis, with many operating in parallel. The model is designed to provide examples, at a high level, of the activities you are likely to find in a consumer products company. The way in which that company operates will of course be unique and you will need to understand and be able to group their specific processes in a way which is relevant to the company.

The selling process is placed towards the front of the model for a specific reason. Although the activities of receiving a customer's order, assembling and delivering the goods and invoicing the customer will often take place towards the end of the chain, the selling process itself is continuous, focused on good customer account management. As more consumer products manufacturers improve their flexibility and responsiveness to their customers, the ultimate goal of making to order becomes more relevant. Putting selling at the front of the manufacturer's supply chain emphasises this fundamental shift from producing for stock towards producing to meet real demand.

Core Business Processes



Sub Processes



Core Business Process: Manage Product Portfolio

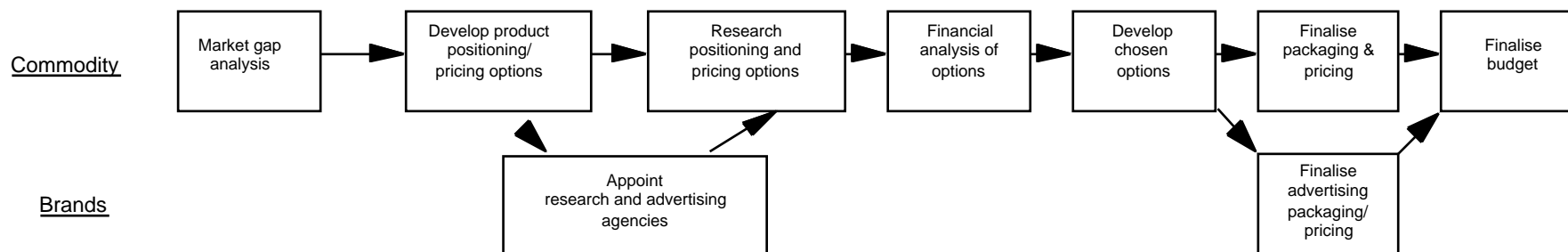
Sub Process: Portfolio/Brand Management



- Process Objectives**
- Focused product portfolio
 - Growth opportunities
 - Increased share of market
 - Product differentiation (brands)
 - Increased sales (volume and value)

- Inputs**
- Strategic plan
 - Operational constraints
 - Consumer/customer research
 - Market research
 - Competitor research
 - Self-assessment of strengths/weaknesses
 - Current and past sales and market share

Activities



- Outputs**
- Product pricing
 - Projected market share
 - Advertising and promotion plans
 - Timing plan for evolution of portfolio
 - Budgeted sales and profit
- Systems**
- Customer/marketing databases
 - Materials, packaging specifications and costs
 - Budgeting and forecasting systems
 - Executive information systems

Classes of Transactions

Routine

- Advertising (brands)
- Promotional/direct marketing costs

Nonroutine

- Barter transactions

Accounting Estimates

- Accruals (coupons, mailers, displays)
- Deferred promotions
- Intangible assets (brands)



The Global Leader

Risks Which Threaten Objectives

- Noncompetitive pricing
- Low brand awareness (brands)
- Ineffective promotion (brands)

Controls Linked to Risks

- Monitor sales gains, losses and competitor activity
- Regular consumer research and dialogue
- Tracking of promotion/advertising results

Critical Success Factors (CSFs)

- Development of product/ brand recognition
- Maintenance of retail customer support
- Promotion/deal effectiveness

KPIs Linked to CSFs

- Promotional spending; market share
- Trade spending/customer paid promotions
- Incremental net revenue; incremental market share; promotional redemption vs category norms

Other Symptoms of Poor Performance

- Long tail of low volume, low profits
- Low redemption of consumer promotions
- Overlap of product positioning

Performance Improvement Opportunities

- Promotional effectiveness analysis
- Promotional modeling
- Database marketing
- Accounting method review
- Executive information systems
- Strategic review of brands (positioning, pricing)

Core Business Process: Manage Product Portfolio

Sub Process: New Product Development



- Process Objectives**
- Improve sales and profit
 - Deliver customer satisfaction
 - Refresh product mix
 - Expand existing market

Inputs

- Market research
- Packaging/production research
- Strategic plan
- Timeplan of evolution of portfolio
- Consumer research
- Competitor information
- Supply chain
- Customer research
- Production facilities

Activities



Outputs

- New products
- Budgeted sales, costs, profit
- Advertising/promotion/public relations
- Product designs/specs
- Projected market share
- Material, facilities and resource requirements

Systems

- Customer database
- Market research databases
- Product / research and development databases

Classes of Transactions

- | | | |
|---|---|---|
| <p><u>Routine</u></p> <ul style="list-style-type: none"> • Costs for designing and developing prototypes, including wages costs and capital additions | <p><u>Nonroutine</u></p> <ul style="list-style-type: none"> • Third party alliances / royalty arrangements • Research and development funding arrangements | <p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • Reserve for obsolete products |
|---|---|---|

Risks Which Threaten Objectives

- Too slow to market with new products
- Failure to get trial of new products
- Failure to get sustained sales of new products

Controls Linked to Risks

- ⇒ Use of cross-functional teams to ensure accurate product costing, manufacturability and customer/consumer acceptance
- ⇒ Obtain feedback from customers / consumers to advertising and promotional concepts
- ⇒ Approval of market research, product development, and product introduction plans by senior management

Critical Success Factors (CSFs)

- Effective use of market research
- Ability to respond quickly to market opportunities or competitive threats
- Meeting consumer/customer requirements on price and performance of new products
- Effective use of all resources dedicated to introducing new products

KPIs Linked to CSFs

- ⇒ Internal failure rate; impact of internal failures
- ⇒ Product development cycle time
- ⇒ Percentage of revenue from new products; market share of new products
- ⇒ Introduction return on investment

Other Symptoms of Poor Performance

- Low production efficiencies
- New products only cannibalise own business

- New products are copies of other

- Inability to service marketplace

Performance Improvement Opportunities

- Competitive market and product analysis
- Research and experimentation credit analysis (U.S.)

- Product development process design
- Capitalisation review

- Cost restructuring, reallocation

Core Process: Sell Products

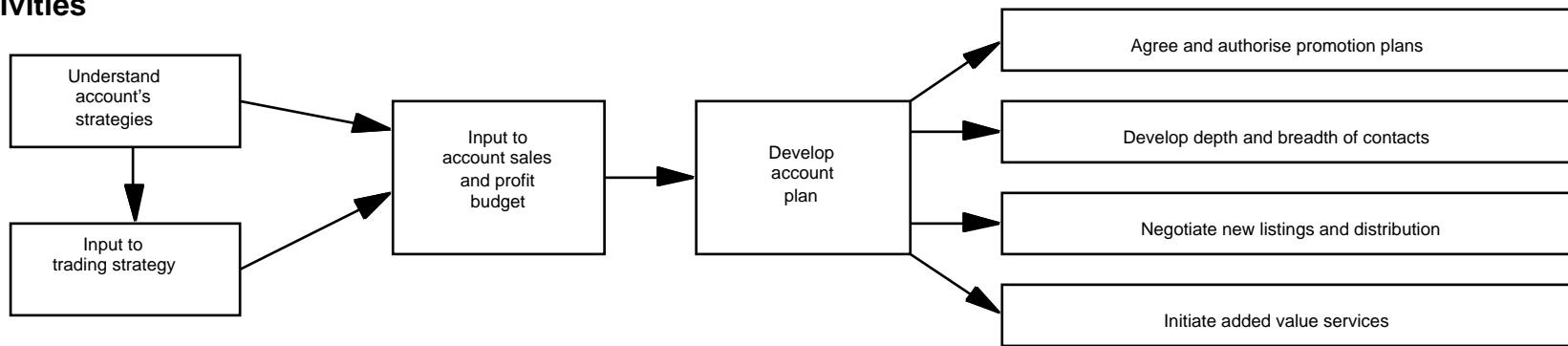
Sub Process: Account Management



- Process Objectives**
- Maximise profitable sales
 - Ensure all sales opportunities are realised
 - Maintain appropriate in-store presence
 - Seek collaborative development opportunities
 - Establish points of differentiation vs competitors

- Inputs**
- Understanding account strategies
 - Customer profitability
 - Advertising and promotion plans
 - Customer service objectives
 - Marketing plan
 - Trading terms
 - Trade marketing plans
 - New product development strategy
 - Competitor research
 - Market research
 - Distribution objectives

Activities



- Outputs**
- Investment priorities
 - Agreed account budget in terms of sales and profit
 - Promotion plan
 - Strong business relationship

- Systems**
- Decision support systems
 - Executive information system
 - Budget planning system
 - Customer databases

- Classes of Transactions**
- | | | |
|----------------|-------------------|-----------------------------|
| <u>Routine</u> | <u>Nonroutine</u> | <u>Accounting Estimates</u> |
| • None | • None | • None |

Risks Which Threaten Objectives

- Poor communication with customers
- Rejection of trade programs
- Better perception of competitors by customer

Controls Linked to Risks

- Regular feedback from customers
- Comprehensive category and market analysis
- Monitoring of competitors trade programs

Critical Success Factors (CSFs)

- Quality of account sales managers
- Acceptance of trade programs
- Clear understanding of customers current needs and future strategy

KPIs Linked to CSFs

- Net sales per salesperson; customer profitability
- Trade promotion spending
- Customer satisfaction survey results

Other Symptoms of Poor Performance

- Account managers have no responsibility for profit

- No central coordination of account managers

- Large number of credit queries

Performance Improvement Opportunities

- Sales force automation
- Best practice promotions

- Category management
- Customer/competitive analysis

- Analysis of trade program performance
- Cost-to-serve analysis

Core Business Process: Sell Products

Sub Process: Customer Order Management



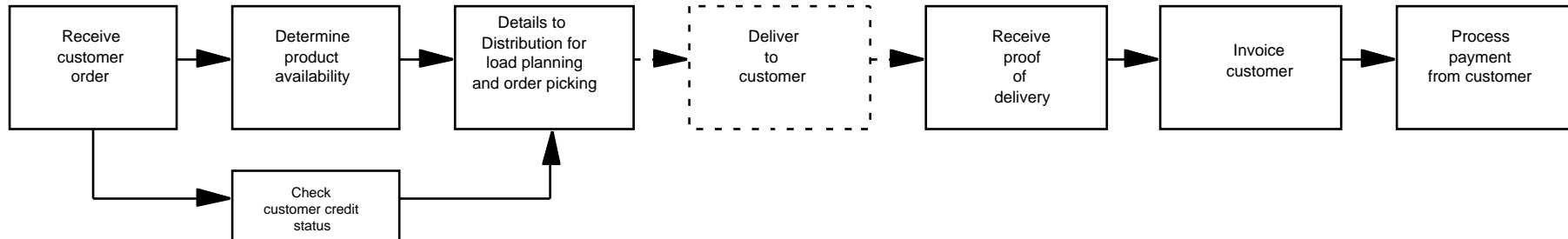
Process Objectives

- Communicate product demand to distribution
- Establish warehouse, transport, invoice cycle
- Confirm price and delivery term

Inputs

- Finished goods availability
- Distribution schedules
- Customer order
- Customer details (delivery address, credit limits, etc.)
- Pricing and terms detail

Activities



Outputs

- Order picking details for distribution
- Invoice to customer
- Sales order statistics

Systems

- Order entry
- Electronic data interchange (EDI) link with customers
- Inventory control system
- Sales ledger

Classes of Transactions

<p><u>Routine</u></p> <ul style="list-style-type: none"> • Sell products • Invoicing customers • Receive payments • Accrual of rebates 	<p><u>Nonroutine</u></p> <ul style="list-style-type: none"> • Unusual collection problems • Sales of accounts receivable 	<p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • Reserve for bad debts • Reserve for product returns
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Risks Which Threaten Objectives

- Inaccurate order entry
- Poor internal communication

- High level of deductions; unresolved customer order/
invoice issues

Controls Linked to Risks

- ➡ Efficient order entry procedures (for example, EDI)
- ➡ Use of integrated systems for order management (order entry, inventory management, logistics / transportation)
- ➡ Simplified pricing / promotion policies; single point of contact for customer regardless of issue

Critical Success Factors (CSFs)

- Efficient and accurate entry of customer orders into system
- Accurate product pricing, promotions database
- Efficient communications links in responding to customer issues

KPIs Linked to CSFs

- ➡ Percentage of orders accepted via EDI; customer order error rate
- ➡ Number of deductions, credit notes
- ➡ Number of unresolved customer issues

Other Symptoms of Poor Performance

- High activity levels involved in sales order processing
- Long timespan between receipt of customer order and dispatch

Performance Improvement Opportunities

- Sales force automation
- Activity-based costing (cost-to-serve analysis)
- Business process reengineering
- Foreign sales corporation tax planning (U.S.)
- Enterprise package software implementation

Core Business Process: Procure Materials

Sub Process: Supplier Management



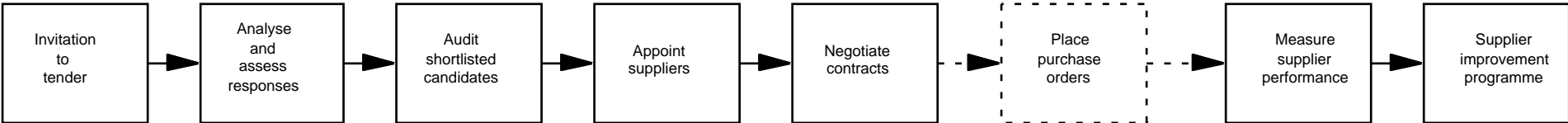
Process Objectives

- Appropriate mix of suppliers
- Quality assured supply
- A supply base committed to continuous improvement
- Enhanced margin through cost reduction

Inputs

- Supply base analysis
- Cost targets
- Quality assurance standards
- Manufacturing processes
- Material requirements
- Previous performance data
- Sourcing strategy
- Material specifications
- New product development
- Product direction / strategy

Activities



Outputs

- Approved suppliers
- Purchase price performance data
- Purchase orders / contracts
- Delivery of materials / services
- Supplier performance measures agreed

Systems

- Purchasing system
- Production forecasting and planning systems
- Quality assurance procedures
- Material specification procedures

Classes of Transactions

- | | | |
|---|--|--|
| <p><u>Routine</u></p> <ul style="list-style-type: none"> • Accrual of vendor rebates/ discounts | <p><u>Nonroutine</u></p> <ul style="list-style-type: none"> • Long-term contracts / commitments with suppliers | <p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • None |
|---|--|--|

Risks Which Threaten Objectives

- Poor quality suppliers
- Ineffective supplier selection process
- Lack of focus on value-added purchasing
- Long delivery lead times

Controls Linked to Risks

- Supplier assessment and selection procedures
- Robust supplier performance measurement system
- Purchase price analysis systems
- Just-in-time inventory strategy

Critical Success Factors (CSFs)

- Suppliers provide superior delivery performance
- Clarity of specification (of materials and performance)
- Proactive management of supplier relationships

KPIs Linked to CSFs

- Supplier on-time delivery performance
- Supplier quality performance
- Ratio of materials to suppliers; material unit cost trends

Other Symptoms of Poor Performance

- Growing number of suppliers
- Cost savings not delivered

- Conversion difficulties

- High turnover of suppliers

Performance Improvement Opportunities

- Supply base rationalisation
- Vendor partnering strategy

- Procurement process improvement
- Supply chain integration

- Procurement team training/development

Core Process: Procure Materials

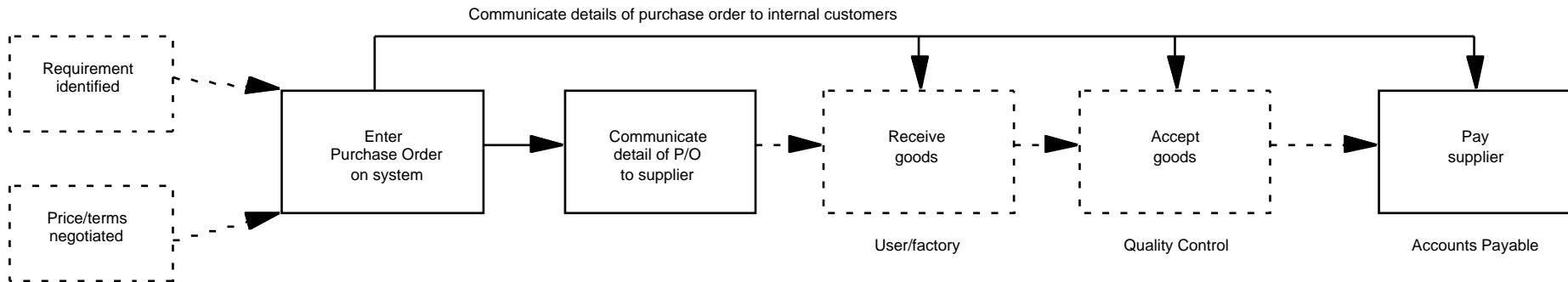
Sub Process: Purchase Order Management



- Process Objectives**
- Communicate material demands to suppliers
 - Establish procurement, receipt, payment cycle
 - Establish requirements and prices with suppliers

- Inputs**
- Material requirements
 - Supply requisitions
 - Negotiated prices
 - Material specifications
 - Bills of material (BOM)
 - Capital authorisation
 - Supply base
 - Lead times

Activities



- Outputs**
- Purchase orders/supply contracts
 - Inventory information
 - Purchase price performance data
 - Payment terms

- Systems**
- Purchase order
 - Bills of material
 - Manufacturing scheduling
 - Requisition
 - Accounts payable

- Classes of Transactions**
- | | | |
|--|---|--|
| <p><u>Routine</u></p> <ul style="list-style-type: none"> • Purchase orders • Invoices • Cash disbursements | <p><u>Nonroutine</u></p> <ul style="list-style-type: none"> • Bill and hold transactions • Consignment stock contracts | <p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • Commodity hedging valuation • Vendor return allowance |
|--|---|--|

Risks Which Threaten Objectives

- Inefficient purchase order system workflow
- Too many people in the process, poor communications
- Suppliers invoicing for appropriate price, quantity

Controls Linked to Risks

- ➡ Use of integrated systems (i.e. manufacturing, procurement, accounts payable)
- ➡ Extensive use of electronic data interchange (EDI) transactions
- ➡ Monitor purchase order, material receipt, invoice clearance/payment cycle

Critical Success Factors (CSFs)

- Efficient communications links with suppliers and internal customers
- Use of just-in-time purchasing

KPIs Linked to CSFs

- ➡ Purchase order error rate; percentage of purchase orders transmitted via EDI; percentage of invoices received via EDI
- ➡ Suppliers' continuous replenishment program(CRP) performance; raw material CRP performance

Other Symptoms of Poor Performance

- High level of activity surrounding purchase order processing

- Inordinate time between order commitment and purchase order usable by accounts payable

Performance Improvement Opportunities

- EDI application installation
- Enterprise package solution implementation

- Business processing reengineering

- Duty drawback services

Core Business Process: Manufacture Products

Sub Process: Production Planning & Materials Management



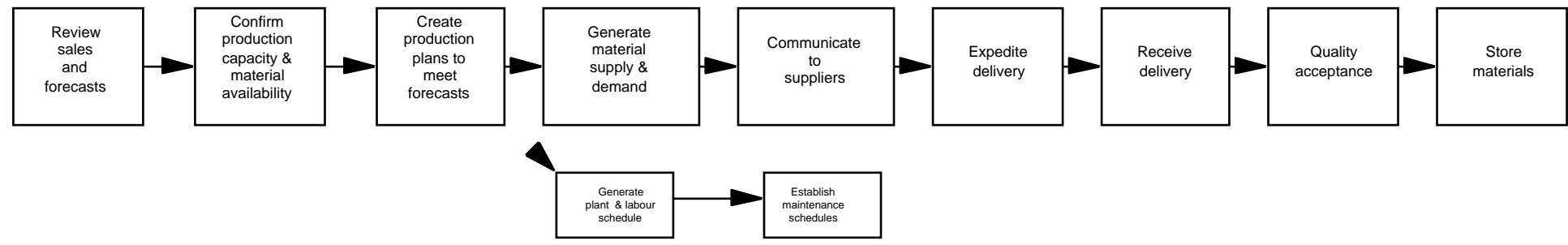
Process Objectives

- Efficient use of resources
- Minimal stock in supply chain
- Maximisation of capacity
- Smooth supply chain flow
- Plans which can meet customer needs

Inputs

- Suppliers
- Bills of material (BOM)
- Materials storage
- Lead times
- Opening stock levels
- Materials planning system
- Supply requisitions
- Purchase orders
- Stockholding policy
- Labour force
- Sales forecasts
- New product development plans
- Promotional plans
- Customer orders
- Material availability

Activities



Outputs

- Closing stock levels
- Materials to meet plan
- Goods received notes
- Supplier delivery performance data
- Production schedules
- Labour requirements
- Material requirements
- Maintenance requirements

Systems

- Purchase order system
- Materials planning system
- Production planning system
- Bill of material (BOM) files
- Sales forecasting system
- Materials databases

Classes of Transactions

<p><u>Routine</u></p> <ul style="list-style-type: none"> • Receipt of materials 	<p><u>Nonroutine</u></p> <ul style="list-style-type: none"> • None 	<p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • Reserve for obsolete inventory • Inventory valuation (commodities businesses that record at market)
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Risks Which Threaten Objectives

- Sales forecasting and planning tools not integrated
- Poor communication internally and with suppliers
- Inaccurate BOM files
- Unresponsive suppliers

Controls Linked to Risks

- Use of cross-functional production planning process
- Continuously monitor actual vs. plan and communicate changes
- Update/check BOM file accuracy frequently
- Monitor supplier performance

Critical Success Factors (CSFs)

- Efficient delivery of raw materials
- Optimal raw material stocks
- Accuracy of management data and forecasts
- Integrated approach to planning

KPIs Linked to CSFs

- Supplier on-time delivery percentage
- Raw material inventory turns
- Actual sales vs forecasts
- Material usage vs planned

Other Symptoms of Poor Performance

- Long lead times
- High inventory levels
- Improper delivery quantities
- Key drivers not included in planning

Performance Improvement Opportunities

- Enterprise package solution
- Activity-based costing
- Supply chain integration
- Business process reengineering

Core Business Process: Manufacture Products

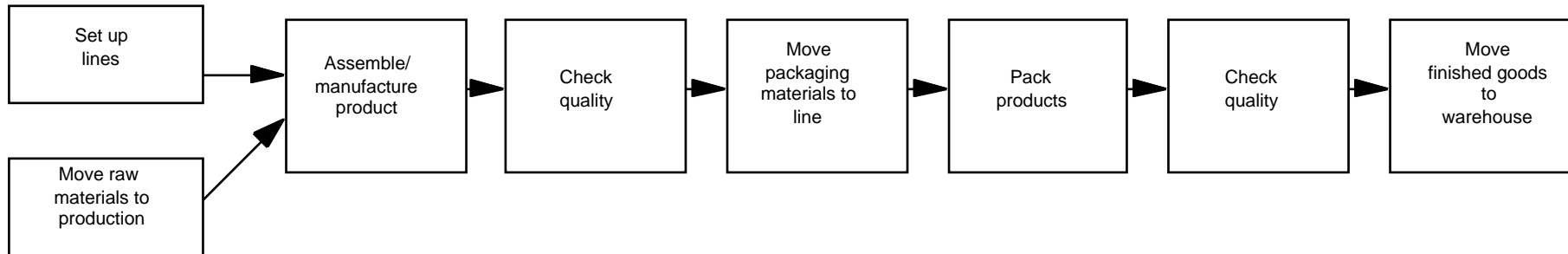
Sub Process: Conversion



- Process Objectives**
- High quality products
 - Low unit costs
 - Customer responsiveness
 - Minimal inventory in supply chain
 - Production effectiveness

- Inputs**
- Opening finished goods stocks
 - Consumables
 - Production schedules
 - Stockholding policy
 - Plant and equipment
 - Maintenance schedules
 - Raw/packing materials
 - Labour
 - Utilities (heat, power, etc)

Activities



- Outputs**
- Closing stocks of finished goods
 - Production performance data
 - New stocks of materials
 - Work in process

- Systems**
- Production scheduling
 - Production control
 - Inventory control

- Classes of Transactions**
- | | | |
|--|--|--|
| <p><u>Routine</u></p> <ul style="list-style-type: none"> • Production of inventory • Movement of inventory (transfer pricing) | <p><u>Nonroutine</u></p> <ul style="list-style-type: none"> • Bill and hold transactions | <p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • None |
|--|--|--|

Risks Which Threaten Objectives

- Poor material flow and quality
- Production capability does not match production needs
- Badly maintained production equipment

Controls Linked to Risks

- Use of effective preventative maintenance programs
- Use of modular manufacturing systems or contract manufacturing
- Monitor production / maintenance costs

Critical Success Factors (CSFs)

- Optimum use of manufacturing resources
- Use of quality assurance and preventative maintenance programs
- Use of good manufacturing practice

KPIs Linked to CSFs

- Capacity utilisation; changeover time; overall equipment effectiveness rate
- Scrap rate; percentage of spending on preventative maintenance
- Government /industry ratings

Other Symptoms of Poor Performance

- Suboptimal capacity utilisation
- Lost time accidents

- Absenteeism rates

- Poor labour utilisation

Performance Improvement Opportunities

- Activity-based costing
- Transfer pricing studies

- Business processing reengineering
- Production facilities optimisation

- ISO 9000 program

Core Process: Distribute Products



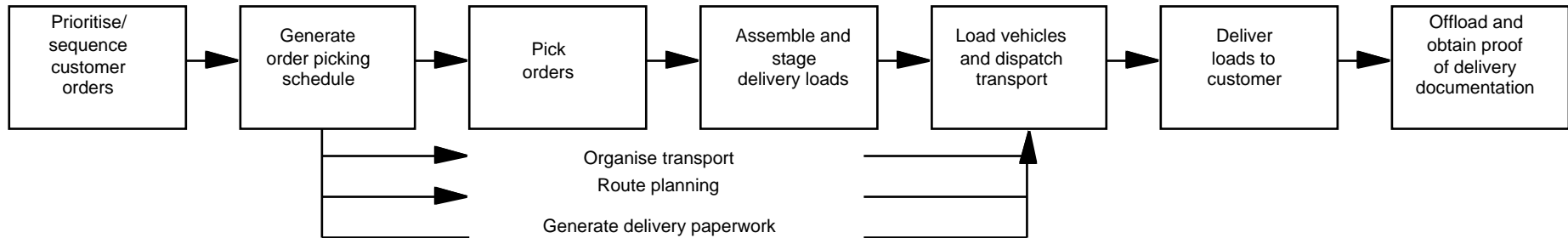
Process Objectives

- Improve on-time delivery of products
- Improve order fill rate
- Provide excellent customer service at optimal cost
- Finished goods assets secure
- Product quality maintained
- Reduce order fulfillment cycle

Inputs

- Finished goods in warehouse
- Customer delivery point data
- Equipment
- Utilities
- Finished goods stock records
- Service level targets/priorities
- Security
- Delivery packaging and pallets
- Transport resources
- Labour
- Customer orders

Activities



Outputs

- Ordered goods in customer's warehouse
- Load utilisation data
- Customer invoicing data
- Closing stock level in manufacturer's warehouse
- Customer service measurements

Systems

- Inventory recording system
- Order picking system
- Pallet recording system

Classes of Transactions

- | | | |
|---|--|--|
| <p><u>Routine</u></p> <ul style="list-style-type: none"> • Inventory movements • Invoicing | <p><u>Nonroutine</u></p> <ul style="list-style-type: none"> • None | <p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • Reserve for obsolete inventory |
|---|--|--|



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Risks Which Threaten Objectives

- Incomplete/inaccurate customer orders
- Non-competitive distribution services
- Poor stock rotation/management
- Unreliable transportation providers

Controls Linked to Risks

- ➡ Monitor on-time performance and accuracy of shipments to customers orders
- ➡ Monitor distribution costs vs budget and services against best practices and competition
- ➡ Measure inventory turnover and days supply in warehouse
- ➡ Use performance-based contracts with carriers

Critical Success Factors (CSFs)

- Good understanding of customer delivery requirements
- Accurate stock recording and rotation
- Accurate order picking
- Performance-based contracts with transport providers

KPIs Linked to CSFs

- ➡ On-time delivery rate; order fill rate; order fulfillment cycle time
- ➡ Days supply; distribution inventory turnover
- ➡ Order picking accuracy
- ➡ Total logistics cost per case

Other Symptoms of Poor Performance

- No delivery performance data
- No transport/order picking schedules
- Untidy warehouse
- High level of back orders
- Poor stock records

Performance Improvement Opportunities

- Continuous replenishment programs
- Logistics studies
- Cross-docking programs
- Distribution facility network optimisation
- Activity-based costing (cost-to-serve analysis)
- Cost restructuring models

Core Process: Serve Customers



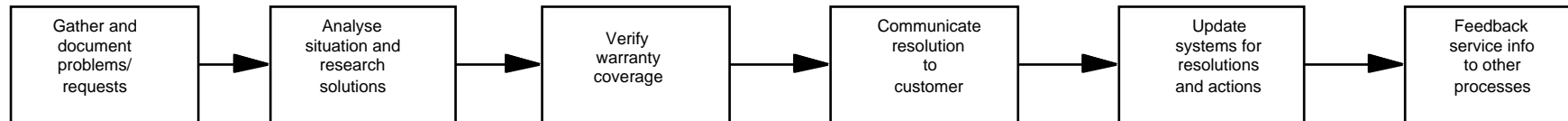
Process Objectives

- Expedite resolution of customer problems
- Improve feedback quality and timeliness to allow product and process improvements
- Reduce time to reimburse customer claims
- Reduce time to repair/service product

Inputs

- Product specifications
- User documentation
- Claims and warranty database and policies
- Marketing plan
- Customer database
- Support databases

Activities



Outputs

- Updated claims and warranty database
- Feedback reports to applicable processes
- Updated customer database

Systems

- Customer database
- Product specification system
- Claims and warranty database
- Customer support system
- Shipping and receivables system
- Resource scheduling system

Classes of Transactions

Routine

- Customer returns/claims
- Sale of service agreements

Nonroutine

- Product recalls

Accounting Estimates

- Determination of warranty liability
- Product recall liability estimates

Risks Which Threaten Objectives

- Databases/systems that do not allow in-depth and timely knowledge and resolution
- Employees not properly trained and empowered
- Claims are not fed back to process owners in a timely manner

Controls Linked to Risks

- ▄ Monitor resolution times and follow up on slow responses
- ▄ Use of high-performance work groups, formal policies and procedures
- ▄ Regular review of unresolved or open claims

Critical Success Factors (CSFs)

- Train and empower employees to resolve issues to customer satisfaction
- Provide access to all parties needed to resolve issues
- Maintain on-line, in-depth database of problems and resolutions

KPIs Linked to CSFs

- ▄ Time from initial customer contact to response
- ▄ Time from initial customer contact to time reported to applicable parties
- ▄ Number of repeat customer complaints; results of customer satisfaction surveys

Other Symptoms of Poor Performance

- Unprofitable service contract business
- High number of abandoned calls
- Complaint system not linked to payment
- High warranty costs compared to budget and industry norms

Performance Improvement Opportunities

- Benchmarking
- Call response analysis
- Data warehousing
- Automated data transfer system
- Accounting methods review



RESOURCE MANAGEMENT PROCESSES

Human
Resource
Management

Property
Management

Regulatory
Management

Financial /
Treasury
Management

Information
Management

Resource Management Process: Financial/Treasury Management



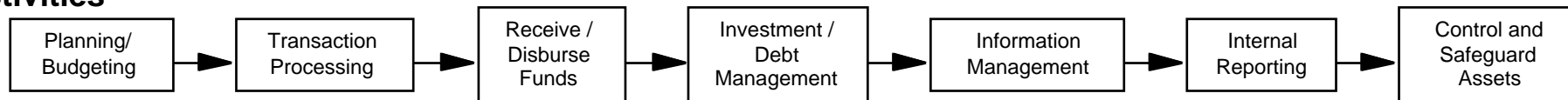
Process Objectives

- Timely, accurate budgets and financial reports
- Relevant, timely and accurate information to management
- Maximise cash flow/investment earnings
- Provide low cost/reduced cycle time and increased accuracy for processing activities
- Optimise the entity's capital structure
- Optimal tax structure to minimise overall taxes
- Comply with financing agreements/covenants and minimise financing costs

Inputs

- Strategic plan
- Functional budgets
- Process budgets
- Financial resources
- Debt/lease agreements
- Economic environment
- Capital budgets
- "Customer" requirements
- Market data

Activities



Outputs

- Budgets/forecasts
- Internal reports
- External financials
- Investments statistics
- Investment management
- Process performance measurement
- Disbursements

Systems

- Cash management
- Tax compliance
- Disbursement/payable
- Payroll/human resources
- Investment management
- Financial reporting
- Billing/accounts receivable
- General ledger
- Budgeting

Classes of Transactions

- | | | |
|--|--|---|
| <p><u>Routine</u></p> <ul style="list-style-type: none"> • Cash receipts/disbursements • Daily financing • Cash management | <p><u>Nonroutine</u></p> <ul style="list-style-type: none"> • Debt issuance • Debt retirement • Accrued interest | <p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • Tax accruals • Tax provision |
|--|--|---|



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Risks Which Threaten Objectives

- Inaccurate financial/management information
- Debt agreement/covenant violations
- Excessive exposure (interest, tax, counterparty)
- Mismatched investments/debt
- Excessive tax exposure/nonoptimal structure
- Changes in market conditions
- External pressure to obtain results

Controls Linked to Risks

- ➡ Strong financial information systems; controls over reconciliations/suspense accounts, internal audit
- ➡ Monitoring of covenants
- ➡ Exposure reviews with “expert” assistance
- ➡ Treasury management system; strong cash forecasting system
- ➡ Tax exposure review vs. external environment; “expert” assistance in tax structure review
- ➡ Infrastructure to track and react to market changes
- ➡ Review of accounting policies; audit committee oversight

Critical Success Factors (CSF’s)

- Timely, relevant, accurate financial information
- Relationships with financing sources
- Efficient operations/qualified personnel
- Matching of cash requirements with forecasts
- Compliance with tax and loan regulations

KPI’s Linked to CSF’s

- ➡ Cycle time for monthly close; “customer” satisfaction levels; information systems costs as % of sales; variances between initial close and final amounts; suspense account analysis
- ➡ Number/quality of financing sources
- ➡ Cost per vendor invoice processed; debtor/creditor days in sales/cost of sales; employee turnover rates; finance dept. headcount and costs as % of respective totals
- ➡ Yield on investments; effective interest rate on borrowings
- ➡ Amendments to tax returns required; effective tax rate; default notices on covenants

Other Symptoms of Poor Performance

- Cash crises
- High transaction costs
- High effective tax rates
- Lack of action following internal/external audit recommendations
- Inaccessible information
- Manual systems/workflow
- Too many/few controls
- Reports done outside financial systems
- Decentralised sales/use tax administration

Performance Improvement Opportunities

- Change management
- Performance measurement
- Work process simplification
- State tax minimisation (U.S.)
- Management reporting review
- Internal audit review
- Activity-based management study
- Electronic data interchange
- Treasury review
- Sales tax planning
- Global reporting
- Benchmarking study
- Foreign sales corporation review (U.S.)
- Activity value analysis
- Payroll tax planning
- Unemployment tax planning (U.S.)



Resource Management Process: Information Management



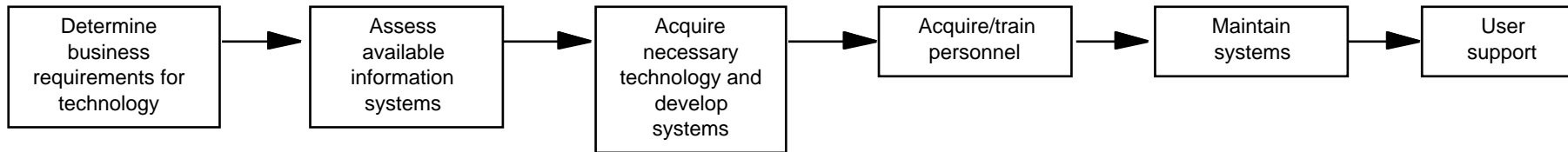
Process Objectives

- Provide integrated data processing systems which produce relevant information
- Timely and accurate information processing and reporting
- Control the cost of collecting, processing and distributing information
- Use technology as a competitive advantage in the business

Inputs

- Strategic plan
- Information technology strategy
- Technology opportunities/constraints
- Trade and research materials
- User groups' requests and feedback
- Capital and operating budgets
- Regulatory requirements
- Resource requirements

Activities



Outputs

- User training
- Project status reports
- User systems and reports
- Systems implementation plans
- Disaster recovery plan
- Information technology procedures and standards
- System development methodology
- Property
- Vendor contracts

Systems

- General ledger and subsystems
- Management reporting systems
- Tax and regulatory systems
- Payroll and human resources systems
- Core business systems
- All company software
- All company databases
- All company hardware

Classes of Transactions

Routine

- Information technology related costs
- Capitalisation of information systems costs

Non routine

- Recurring depreciation

Accounting Estimates

- Depreciable lives
- Software development costs



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Risks Which Threaten Objectives

- The data processing systems does not provide useful information or lacks adequate capacity
- Multiple software packages from different vendors prevent effective integration
- Inadequate training of information technology personnel
- Proper priorities not given to projects
- Catastrophes prevent the system from operating as intended
- The system lacks reliability, integrity and/or responsiveness

Controls Linked to Risks

- ⇒ Use of a technology steering committee (including users) to monitor utilisation and adequacy of system; system development life cycle methodology that includes users
- ⇒ Review software and hardware purchases to ensure they will support integration
- ⇒ Information technology costs are compared to industry norm
- ⇒ Cost justification analysis at project level
- ⇒ Establish a disaster recovery plan; establish back-up and record retention procedures
- ⇒ Review of system performance statistics

Critical Success Factors (CSF's)

- Systems provide timely and accurate information
- Purchase and maintain systems at lowest possible cost
- Involve users with acquisition, development and maintenance decisions
- Develop integrated systems that provide cross-functionality and commonality among applications

KPI's Linked to CSF's

- ⇒ Information processing cycle time; user information survey results; response time for on-line requests
- ⇒ Information technology costs as percentage of total costs; cost of information technology operations versus outsourcing services
- ⇒ Number of user complaints/requests for change
- ⇒ Number of different software packages from different vendors; number of custom programs versus purchased software

Other Symptoms of Poor Performance

- Slow response to information requests
- System is "down" frequently
- Limited use of PC-based applications
- Users don't feel involved in development process
- Systems are too old to support integration
- Users maintain own databases (not integrated)
- Many manual processes and/or paper reports
- High level of information management operating costs
- Personnel are unproductive due to lack of skills
- No chargebacks to departments for use
- Rekeying performed

Performance Improvement Opportunities

- Contingency planning
- Information technology strategy
- Information security analysis
- Technology benchmarking
- Package solutions/enterprise package solutions
- Outsourcing analysis



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Resource Management Process: Human Resource Management



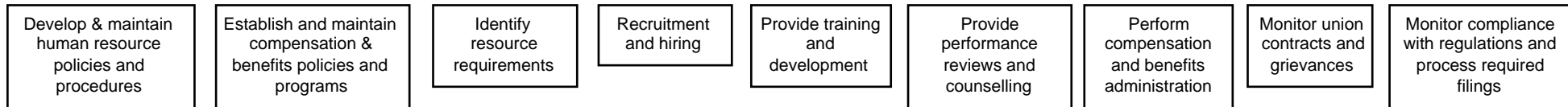
Process Objectives

- Attract and retain skilled and motivated work force
- Control employee costs while maintaining morale and productivity
- Comply with regulatory/tax filing requirements
- Adherence to code of conduct

Inputs

- Strategic plan
- Operating plan
- Resource requests
- Employee regulations
- Tax regulations
- Union contracts
- Industry statistics and market data
- Training goals/requests
- Personnel feedback

Activities



Outputs

- Regulatory filings
- Compensation and benefits policies and administration
- Personnel files
- Tax filings
- Human resource policies/procedures
- Training programs
- Performance reviews
- Payroll and benefits disbursements
- Staffing and cost data

Systems

- Human resource management
- Compensation and benefits
- Tax system
- Regulatory systems
- Cash disbursements/payables systems
- Employee self-service systems

Classes of Transactions

- | | | |
|--|--|---|
| <p><u>Routine</u></p> <ul style="list-style-type: none"> • Payroll and benefit expenses • Payroll related accruals • Training expenses | <p><u>Non routine</u></p> <ul style="list-style-type: none"> • Pensions • Other post retirement benefits • Post employment benefits • Incentive compensation accruals | <p><u>Accounting Estimates</u></p> <ul style="list-style-type: none"> • Self-insured medical • Self-insured workers' compensation • Self-insured general liability claims |
|--|--|---|



Risks Which Threaten Objectives

- High level of staff turnover
- Poorly motivated staff
- Non-compliance with regulations (tax, labour, etc.)
- Lack of personnel with skill sets needed
- Noncompetitive compensation packages

Controls Linked to Risks

- ➡ Conduct employee surveys with follow up on results; implement growth and opportunity plans for employees
- ➡ Compare incentive pay to performance; conduct employee surveys with follow up on results; monitor labour relations and establish employee grievance committees
- ➡ Regulatory monitoring
- ➡ Establish formal hiring criteria; develop and implement effective training programs
- ➡ Compare salary costs to industry norms; compare incentive pay to performance

Critical Success Factors (CSF's)

- Commitment to training and development
- Retention of key personnel
- Maintain competitive compensation/benefit packages
- Optimise employee utilisation and productivity
- Employee commitment to customers
- Optimise human resource administration efficiencies

KPI's Linked to CSF's

- ➡ Training hours per employee; training dollars per employee
- ➡ Employee turnover
- ➡ Employee turnover; compensation/benefit levels compared to the industry
- ➡ Sales per employee; payroll to sales
- ➡ Customer complaint percentage; customer surveys/focus groups
- ➡ Human resource employees/total employees; human resource department costs to sales

Other Symptoms of Poor Performance

- Poor internal communication
- Fines and penalties for untimely, inaccurate tax and regulatory filings
- High level of absenteeism
- Inconsistent employee management
- Low productivity
- High level of customer complaints

Performance Improvement Opportunities

- Incentive compensation consulting
- Managed health care studies
- Claims systems reviews
- Retirement plan reviews
- Human resource department reengineering
- Human resource benchmarking



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Resource Management Process: Property Management

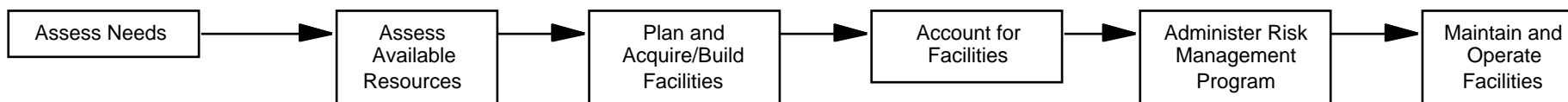
Process Objectives

- Control capital expenditures
- Acquire/construct facilities at acceptable technological/reconfigurable levels
- Optimise capacity
- Reduce risk of loss and improve safety environment

Inputs

- | | | |
|---------------------|------------------------|---------------------------|
| • Strategic plan | • Suppliers | • Demographic information |
| • Capital budgets | • Construction plans | • Maintenance schedule |
| • Operating budgets | • Economic environment | • Regulations |

Activities



Outputs

- | | | |
|---------------------------|---------------------------|-------------------------|
| • Make/buy analyses | • Machinery and equipment | • Supplier contracts |
| • Disaster recovery plans | • Land and buildings | • Operating information |
| • Capital budgets | • Risk management plan | |

Systems

- | | | |
|------------------------|----------------------|--------------------|
| • Fixed asset | • Budget | • General ledger |
| • Disbursement/payable | • Payroll/scheduling | • Space management |

Classes of Transactions

- | | | |
|-------------------------|---------------------------|------------------------------------|
| <u>Routine</u> | <u>Non routine</u> | <u>Accounting Estimates</u> |
| • Fixed asset additions | • Lease classification | • Impairment of long-lived assets |
| • Insurance expense | • Incentives/abatements | • Uninsured loss accruals |
| • Depreciation expense | • Gain/loss on sale | • Depreciation methods/lives |
| • Maintenance expense | • Interest capitalisation | |



Risks Which Threaten Objectives

- Insufficient or excessive capacity
- Uninsured or underinsured losses
- Impairment in value of assets
- Inability to acquire needed assets timely
- Cash flow not sufficient to fund capital expenditures
- No contingency plans for unexpected events

Controls Linked to Risks

- ➡ Create and monitor facilities plans; compare costs to operate to outsourcing; compare actual utilisation to plan
- ➡ Conduct environmental and safety reviews; monitor legal and regulatory initiatives
- ➡ Monitor maintenance plans/ periodic inspection; monitor new developments and technology
- ➡ Maintain relationships with suppliers; obtain competitive bids
- ➡ Monitor capital budgets; compare costs to operating budgets and industry
- ➡ Periodically monitor feasibility of disaster recovery plan

Critical Success Factors (CSF's)

- Accurately plan equipment and facilities needs
- Procedures to follow environmental regulations/safety training
- Establish maintenance procedures
- Maintain current disaster recovery plan (DRP)
- Establish proper procurement procedures
- Monitor developments in technology/facilities

KPI's Linked to CSF's

- ➡ Square feet utilised divided by total available; square feet and cost per square foot by department
- ➡ Ratio of insurance premium costs to coverage; number and cost of environmental fines
- ➡ Maintenance costs to total operating costs; equipment write-offs
- ➡ Modifications to disaster recovery plan
- ➡ Percentage of orders where discounts taken; costs per unit by vendor
- ➡ Equipment/technology costs by department

Other Symptoms of Poor Performance

- Excessive machinery downtime
- Manual systems/workflow
- Excessive workers' compensation claims
- Capital project overages (costs and time)
- Excessive number of suppliers
- Increasing property taxes

Performance Improvement Opportunities

- Procurement review
- Property tax representation
- Capacity review
- Maintenance systems review
- Business incentives consulting
- Benchmarking study
- Improved fixed asset systems
- Management reporting review
- Environmental assessment review



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Resource Management Process: Regulatory Management



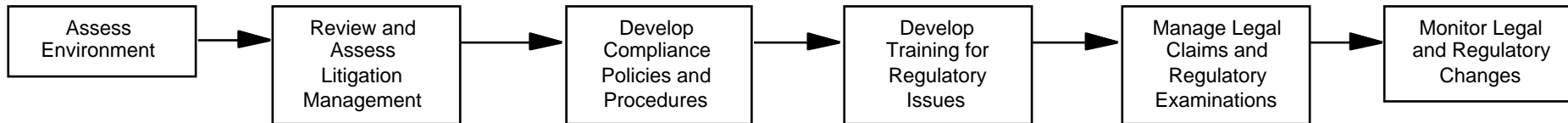
Process Objectives

- Minimise litigation
- Protect adequately against loss while minimising costs
- Comply with regulatory requirements
- Improve environmental and safety conditions

Inputs

- Strategic plan
- Independent research
- Regulatory experts
- Regulatory laws and guidelines
- Historical litigation data
- External regulatory environment
- Training curriculum

Activities



Outputs

- Litigation reports
- Litigation projections/analyses
- Regulatory projections/analyses
- Regulatory reports
- Compliance policies and procedures
- Retention agreements

Systems

- Budgeting
- Payable/disbursement
- General ledger
- Regulatory/legal databases

Classes of Transactions

Routine

- Insurance expense
- Premiums payable
- Legal/regulatory expenses

Non routine

- Lawsuit settlements
- Regulatory settlements

Accounting Estimates

- Loss reserves - litigation
- Loss reserves - regulatory



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Risks Which Threaten Objectives

- Regulatory violations resulting in losses
- Settlement expenses (indemnity, fees, etc.)
- Insurance rate increases
- Negative publicity from environmental issues
- Company is not safety/environmentally-conscious
- Contingent liabilities exist but are not known

Controls Linked to Risks

- ➡ Monitor exam reports for violations
- ➡ Monitor number of new lawsuits and number settled; review total cost breakdown
- ➡ Monitor insurance rates and rate "market"
- ➡ Track company response to issues; monitoring of competitors' issues
- ➡ Establish responsibility for monitoring adherence; establish/monitor relationships with regulators
- ➡ Periodic reviews by experts as to conditions; monitor complaints, fines and claims

Critical Success Factors (CSF's)

- Adequate insurance with appropriate coverage
- Awareness training to educate against violations
- Monitor and manage environmental changes
- Maintain safe, clean, well-organised facilities
- Minimise and control use of hazardous materials
- Adequate procedures re/ lawsuit handling

KPI's Linked to CSF's

- ➡ Insurance-related expenses vs. prior years; amount of uncovered losses vs. additional cost to cover
- ➡ Worker complaints; relevant training hours per employee per year
- ➡ Dollars spent monitoring environment
- ➡ Days without loss-of-work injury; workers' compensation claims rates; dollars and number of environmental fines
- ➡ Measure of toxic products produced or used in production
- ➡ Number of new lawsuits and lawsuits settled (by type)

Other Symptoms of Poor Performance

- High or increasing average cost per case
- High outside counsel costs
- Property acquisitions without environmental due diligence
- Lack of negotiated fees
- Uncertainty as to total environmental costs

Performance Improvement Opportunities

- Expert testimony/litigation assist
- Tax advice for pollution control investment
- Litigation management diagnostic
- Alternative dispute resolution
- Quality assessment/compliance audits
- Environmental due diligence
- Law department review
- Risk assessment diagnostic
- Environmental benchmarking

