

Writing Sample: The ICAEW Examination of Experience – Certification Submission

1. Using your recent experience, describe how you identified two different business and /or technical financial issues

Part I: Bringing a new product successfully to market

The Situation

As Freedom Soles Limited entered the market with their posture-enhancing shoes, they required help in developing strong strategies to bring in financing, explore risk management and break-even figures, and plan marketing to allow them to compete on price and quality with its primary competitor, Masai Barefoot Technology Limited (MBT). When they came to see me in December 2008, the first batch of 1,600 shoes had arrived in United Kingdom.

How Issues Were Identified

In initial face-to-face meetings I enquired about the commercial aspects of running the business with the two key stakeholders including: a) what financing arrangements were in place b) how they were going to build and manage the sales cycle, c) how they were forecasting their cash flows, and d) their plans to market the shoes.

During my visits and further investigation into the company's financial records, it became apparent that an up-to-date business plan, cash flow forecast and marketing plan did not exist. Leading the two shareholders through each of these business aspects through meetings and subsequent email, I identified these major issues: a) developing valid business plan/financing, b) gaining market share, c) planning risk management d) planning sales cycle, and e) managing cash flow

Business Plan/Financing

Although an outline business plan existed in the minds of the stakeholders, it needed to be formalised taking into consideration the economic climate, which must then be factored into the business model. In today's recessive economy, consumers consider expensive shoes to be a luxury item.

The stakeholders needed to establish a few months track record of sales before approaching the business banking manager with a marketing plan and cash flow forecasts, and requesting a loan against which stock could be offered as collateral for a floating charge. (In their initial loan request, the stakeholders had not done this.)

Considering the stakeholders lack of commercial experience taking on board a venture capital firm may be strategy for the company.

Market Share

Freedom Soles had a major challenge in gaining brand recognition and market share. The success of Freedom Shoes lay in their ability to create shoes that were as similar as possible to their competitor, the market leader MBT, yet differentiate their product on price.

Concentrating on designing the shoes and getting them manufactured, the stakeholders had done little marketing plan development. Some work had been done on the development of sales support material, such as commissioning Sheffield Hallam University to conduct a scientific

study and using that in articles written by a public relations firm to help with brand recognition.

Risk Management & Sales Cycle

The stakeholders had not considered risk management in their operations. In my meetings with them, I could see they didn't understand the importance of establishing a sales cycle independent of any single large customer as a way of managing risk. They were hoping for orders from big retail chains without realising that they didn't have the resources to fulfil the orders at that particular time. In addition, the manufacturer was not willing to give them credit and no financing arrangements existed with their banks. The company had not even approached the independent retailers (about 17% of the total retailers), where immediate sales could be generated.

In addition, I found the break-even sales figure had not been identified and the managers/owners did not fully appreciate the need of the business to achieve it as quickly as possible. The timing was critical because, as the sales started to pick up, there was a danger the business could run out of stock because of the three-month lag time between placing an order and receiving the shoes. At the same time, all seven designs the company had introduced were not likely to sell equally well, and the company needed some time to identify the fast-selling lines and order quantities based on their turnover.

Cash Flow Management

My enquiry to the stakeholders about short-term and long-term cash forecasts revealed that they didn't exist. The stakeholders had not fully explored how much extra time they could negotiate to pay the various debts and start managing their cash flows. My subsequent cash flow forecast indicated that the company would face a severe shortage of cash around March/April 2009.

Part II: Providing a framework for providing consistent, accurate and reliable information to stakeholders

Situation

The Commercial Data Team (as it was then called in 2006) was an all-round center responsible for all aspects of data, including acquisition, validation, enhancement and analysis, etc.

A relatively new department, Commercial Data had grown from an initial start-up of two people to a 30-person team over a four-year period. The department comprised data stewards, data and business analysts, data architects, developers and a team looking after the data operations.

Another department, the Data Warehousing Team, which was totally separate from Commercial Data, dealt with the standard routine reports, while Commercial Data received queries and questions which were non-routine and could not be answered using standard reports. Inconsistencies were found in answers to stakeholder enquiries (regarding all different aspects of data, data processing, data quality and business issues) to the Commercial Data teams as well as other departments such as finance, marketing or sales.

I was asked to identify the issues causing this discrepancy and recommend a framework for providing consistent, accurate and reliable information to the stakeholders, who included senior business managers.

How Issues Were Identified

The primary responsibility for this work was mine with help from an analyst colleague who helped conduct the interviews and the validation of my work.

To identify the issues, I first requested the department members who answered stakeholder enquiries to list the questions they had been asked or queries they had received in the last year from across the business and then specify the information they had provided. They answered by filling in the template I sent them (most often by cutting and pasting from the e-mails received and the reply sent). The collection of data and its collation took almost four months.

In addition, I asked people in finance, sales and marketing how they classified information and compared it to Commercial Data's definitions. For example, revenue is included by finance when it is earned and the directory is published and circulated (one needs to know the circulation and publication dates), whereas Commercial Data only looked at publication dates.

In the second stage, I set up face-to-face interviews over following seven to nine weeks, with the department members, either individually or in pairs, to gain a deeper understanding of:

- 1) How the question/query had been interpreted,
- 2) The depth of understanding of the data steward/analyst, and
- 3) Why a particular set of data was used to the exclusion of others to answer the question.

Identified Issues and Actions

The replies revealed that over 370 questions and queries had been asked of the department. Review of the responses and subsequent interviews revealed the following issues that had led to inconsistent and sometimes inaccurate information being provided to the stakeholders.

- 1) No commonly agreed upon definitions of constructs such as customers, prospects, processed orders and revenue.
- 2) The meta-data capabilities of SAP had not been developed and no "data dictionary," which would define the data available within the tables

- 3) Different skill levels of the data stewards and analysts.
 - a. Data stewards took a more superficial view of the questions asked
 - b. Analysts worked through several layers of data and cross-checked their answers with other supporting evidence to arrive at their conclusions.
- 4) The department as a whole was more focused on the data and customer service aspects of the business and had little understanding of how the Finance Department allocated costs and revenue to accounting periods.
- 5) Data redundancy within heavily customized SAP (the customization had affected the normality of the database) also contributed to the inconsistency of answers. Some people had used data that had not been updated within SAP for quite some time.

After the issues had been identified, a database of over 170 questions was built, which included definitions of different elements and provided sample SQL code to answer the questions.

3.2 Using your recent work experience, describe how you have applied professional judgement to prioritise issues.

Managing risks associated with expanding the business

Situation

A client, who imports 85 different items, consolidated its two warehouses into a single large warehouse, implemented stock management systems and mechanised operations. I was asked to set and prioritize strategies to save the company from facing bankruptcy. I conducted a detailed review of their accounts, stock and operations, with help of my assistant accountant, which showed the following: higher costs were inherent in this consolidation to larger facilities, the company's business model had not been updated to address the consolidation, and new cash flow management systems were required.

Although consolidating two locations to one would eventually save the company money, the rent and rates of the new warehouse were three and half times the operating costs of the previous warehouses.

The client had developed his business by selling to higher risk customers on credit. In exploring the client's history, it was found that 84% of the customer base consisted of small retail shops, which cannot usually get credit from the large wholesale companies. Because the company's operating costs were lower with the two smaller warehouse locations, they made a profit on the higher risk customers despite the high default rate.

When the client tried to increase his sales to these high-risk shops or similar small businesses, the bad debts started to increase dramatically. The client went into negative cash flow within a period of three months. Facing possible bankruptcy, the owners contacted me to help them.

In my research and analysis, I saw the *highest priority* was changing the business model of the client within a very short time period. The client's position within the supply chain is arguably the most risky one. This type of business model is one that lends itself easily to over expansion, and as such this could be a root of the problem, particularly given the client's business history.

The *immediate, short-term priority*, however, was keeping the business solvent by increasing cash inflows and decreasing the cash outflows. Whilst this may seem obvious, this is a result of the importance that this holds to the "middle-man" within a process.

Short-Term Priority

The short-term priority was to stem the negative cash flow upon the business, which could soon turn out to be irreversible. I recommended the following steps for the first three months:

- 1) Stop the practise of increasing sales by giving additional credit to small retail outlets and direct all efforts towards selling to medium and large retail shops those brands not being sold by larger wholesale organisations. About 15 items were included in this category. If necessary, price discounts were to be offered to encourage these new accounts.
- 2) Reorganize the large office space and lease out the spare space to increase cash flow. I calculated that income from the lease would cover 20% of the rent and rates.
- 3) Start marketing and selling directly to retail customers at prices discounted by 15% from retail. With a centrally located warehouse and free parking, this strategy offered a unique opportunity to quickly turn around the business in a period of generally rising food prices. A demographic analysis (from the Office of National Statistics) of the area indicated large segments of ethnic minority families of five or more members. We conducted nine informal interviews, focusing on the size of the family, average monthly spending on food

and items purchased, which revealed that a 15% discount on retail price represented a significant saving to these families. A dedicated section for retail customers would let them shop without disturbing the wholesale operations. There was no danger of any objection from retail outlets because most of the retail customers were located outside the immediate vicinity.

High Priority

For the longer term, I recommended the business change its business model and its operations:

- 1) Focus more on selling niche products to large retailers which are not sold by other wholesalers and move away from selling to high-risk customers except on cash.
- 2) Purchase more products locally. My investigation of stock management showed that the company could earn twice the profit by purchasing almost 40% of the items locally to shorten the lag time between placing an order and receiving the items from 6-16 weeks to about 7 days.
- 3) Drop 15 to 20 of the lowest contributing items based on an analysis (done by me and my assistant) of the contribution of each product per square metre of occupied space each month, and concentrate on products offering the highest contribution.