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The relationship between Management Accounting, profitability and operations in an uncertain world. Evidence from literature and practice

School of Management

DBA Thesis Appendices

APPENDICES

APPENDICES

SYNOPTIC DOCUMENT (SD)

PROJECT 1 (P1)

PROJECT 2 (P2)

PROJECT 3 (P3)

APPENDIX

SYNOPTIC DOCUMENT

A P1 WILDCARDS TREATED AS UNCERTAINTY

Construct	Wildcard	Uncertainty classification	Sources
(1) Demand - The provision of customer requirements and terms.			
• Requirements	- Customer presses for more than contractual liability	Customer Price/Prof	Customer
• Customer terms	- Disagreement with customers on terms	Customer Price/Prof	
(2) Supply - The provision of information about resources required to meet demand			
• Resource availability	- Difficult to sort what is needed from what is 'nice to have'	Man effectiveness	Internal
• Staff terms	- Availability difficulties can damage intended performance	Man effectiveness	
• Supply terms	- Difficult to control operational management negotiations - Dispute with suppliers on terms	Supply	Supplier
(3) Operational influences - The source, use and context of information in directing and controlling operational decision making			
• Operational intention	- The intention of operational management is not necessarily in line with senior management and will be driven by personal goals/circumstances	Man effectiveness	Internal
• Impact of profitability reports	- Financial information is confidential especially margins. As operational managers work typically on customer premises distribution of financial information is limited - Operational management do not see financial accountability as their responsibility	Man effectiveness	Internal
• Operational `assessment	- Very difficult to drill down to the depth to identify for each profit centre the main drivers of performance given the complexity and changes in volume requirements	Man effectiveness	Internal
• Management structure	- Can be difficult to isolate into manageable units causally linked income and expenditure due to complexity of the supply demand relationships - Dependant on the skills of managers in the hierarchy and their potential to use information politically	Man effectiveness	Internal
• Guideline and information adequacy	- Operational management interpretation of required information may be governed by personal goals	Man effectiveness	Internal
(4) Compliance requirements	- Compliance requirement change and can be difficult to interpret. - Breaches though unexpected catastrophe can potentially be devastating	Compliance	Regulatory
(5) Operational actions - How information is obtained and used in making decisions on using resources to meet customer demand.			
• Operations planning	- Difficult to know if performance is guided by management effectiveness of operational and financial set up Changes in stakeholder actions can affect profitability and assumptions without significance being realised Operational effectiveness can vary on staff availability / time / changes Different profit centres requires differing levels of skills	Man effectiveness	Internal
• Subcontractor and interdepot usage	- Quality provided by subcontractors can fail to meet customer demands	Supply	Internal
• Staff employment	- Operational managers tend to use staff available whether need to or not	Man effectiveness	Internal

A P1 WILDCARDS TREATED AS UNCERTAINTY

Construct	Wildcard	Uncertainty classification	Sources
usage			
(6) Financial transactions - The production of individual and aggregated values of financial transactions			
• Systems set up and use • Recording financial records	- Inability to agree values with customer or supplier - Failure to record incurred costs and expenditure accurately, especially when price contingent or transaction not visible - Difficulty in tying in invoiced values to earlier reported incurred values. - Ineffective systems either through design or management difficulties. - Production of information can be time-consuming	Reporting validity Man effectiveness	Internal
(7) Classification - The classification of the values of financial transactions as a result of management interpretation			
• Classification and allocation of costs and income	- Changes in cost and income allocation lead to changes in interpretation of performance and action arising from these interpretations	Accounting perspectives	Internal
• Interco pricing protocols	- Failure to implement effective intercompnay pricing can lead to wrong assessment of performance		
(8) Financial Reports - The production of weekly non accounting based detailed profitability reports			
• Weekly flash	- Subject to revision on a rolling basis as unreported information is gained, or previous information reinterpreted. - Choice of classification and accounting policies adopted greatly affect results. - Accuracy dependant on accuracy of financial transaction being recorded	Reporting validity Man effectiveness Accounting perspectives	Internal
• Validation	- Unreported or inaccurately reported income and expenditure lead to wrong information and erroneous assessments.		
(9) Financial Targets	- Targets quickly become out of date as unanticipated actions occur - Dependant on senior management capability and commercial awareness	Customer Price/Prof Man effectiveness	Customer Supplier Regulatory Internal
(10) Performance v target	- Continual changes in actual actions of stakeholders vs. assumed actions of stakeholders means that implementation actions have to be continually reassessed	Customer Price/Prof/Volume	Customer
(11) Management assessment and intention - Assessment of past actions and planning and intention for future actions to change business model. The mix of the intended terms, volumes, resource used and operational processes is called the business model.			
Customer	- If prices charged are less than cost for long term contract lead to long term losses - Difficult to assess impact on interrelated services provided within the company - Prices are negotiated in competitive positions – difficult to know where to pitch	Customer Price/Prof/Volume	Customer
Operational	- Often not clear what is driving underperformance, particularly whether is management capability, operational processes being used or under the business model operated costs are too intrinsically too	Customer Price/Prof/Volume	Customer

A P1 WILDCARDS TREATED AS UNCERTAINTY

Construct	Wildcard	Uncertainty classification	Sources
	high compared to revenue - All future projections are based on uncertainty – actual turnout not necessarily as predicated - Long term contractual commitments can means that target changes cannot be made - Dependant on action being initiated by senior management, and management having the time and focus to do this	Man effectiveness	
Strategic	- Dependant on uncertain future trading and stakeholder actions	External	Customer Supplier Regulatory
(12) Customers Negotiations	- Difference between practise and model can cause major margin variances - Dependant on customer compliance Customers can be difficult to negotiate with	Customer Price/Prof	Customer
(13) Accounts - The accounting books and records used in the processing the consequences of incurred financial transactions through the accounts double entry system			
• Accounting books and records	- Different accounting treatment to flash treatment leads to continual variations between accounting and flash	Reporting validity	Internal
• Validation of flash	- Operational classifications	Accounting perspectives	Internal
(14) Cash Flow	- Failure to maintain	Man effectiveness	Internal
(15) Cash flow assessment - Procedures for review, planning cash flow			
• Cash flow review	- Trading out of line with projections causes difficulties - Dependant on customer paying Late customer payments / unexpected requirement can be dangerous	External Man effectiveness	Internal
• Cash flow future planning	- Get it wrong and you're bust Projections dependant on future trading outcomes, which are dependant on actions of external stakeholders		
(16) External assessment - The creation of projections and assessment of past performance to form the basis of information for external funders.			
• PL projections and assessments	- Future projections tend to be treated as absolute predictions by providers of external funders. Therefore failure to meet the projections can lead t swift loss of confidence - Validity of future projections is inherently dependant on the uncertainties relating to future outcomes	External Man effectiveness	Internal
• Formal assessment	- Danger of unexpected actions causing assessment to look erroneous	External	Customer Supplier Regulatory
(17) Reporting - The reporting of both historical performance and projected future performance to outside funders and for compliance requirements - the final output of the accounting sequence			
• Formal management accounts	- Wildcard / unexpected stakeholder actions can cause variances from target which get classified as management incompetence Maintenance of confidence is of importance	External Man effectiveness	
• Audited accounts	- Accounts inherently subject to post hoc revisions and the financial consequences of historic event		

A P1 WILDCARDS TREATED AS UNCERTAINTY

Construct	Wildcard	Uncertainty classification	Sources
• Tax reporting and planning	emerge		Internal Customer Supplier Regulatory
(18) External funding negotiations	- Unforeseen events prove reports and projections to be shown as inconsistent thus leading to loss of faith in management team		

B P3 EVIDENCE REASSESSED AS TWIN MODE

See Excel file – pages 268 + 269

APPENDIX

PROJECT 1

A DETAILS OF NODES

Construct	Description	Number of passages- Management	Number of passages - Operations	Number of passages - Reports	Total Number of passages
(1) /Demand	Instances relating to how information is sourced and used in providing operational management information about customer demands - volumes and terms				
Customer demand	Instances relating to how information is sourced and used in providing operational management information about customer volumes	0	14	0	14
Customer terms	Instances of the use and source of customer contractual terms, (price, service requirements, profiles) to provide the price terms in calculating the value of financial transactions	10	13	1	24
		10	**27**	**1**	**38**
(2) /Customers negotiations	Instances of how decisions are made and the bases and guidelines (e.g. target margins) on which these decisions are made in relation to customer	**10**	**9**	**0**	**19**
(3) /Supply	Instances relating to how information is sourced and used in providing operational management information about resources required to meet customer demands - volumes and terms				
Resource availability	Instances relating to how information is sourced and used in providing information on resource availability (vehicles, IT system, staff, subies) for operational processes.	0	18	0	18
Staff terms	Instances of the staff terms providing the price terms in calculating the value of financial transactions.	5	2	0	7
Supply terms	Instance of how supplier terms and requirements provide the source and are used to in the calculation of the costs of expenditure financial transactions	5	11	0	16
		10	**31**	**0**	**41**
(4) /Operational influences	Instances of how information is sourced and used to direct and control operational decision making				
Operational intention	Instances of the intention of operational managers when making operational decisions	1	9	0	10
Impact of profitability reports	Instances where the impact of profitability targets and reports (principally flash) have been referred to as having an impact on operational decisions	9	24	0	33

A DETAILS OF NODES

Construct	Description	Number of passages-Management	Number of passages - Operations	Number of passages - Reports	Total Number of passages
Operational assessment	Instances of the source of information used by operational management to assess operational performance and how it is used.	0	27	0	27
Management structure	Instances where management structure affect how information is obtained and used in operational decision making	3	19	0	22
Guideline and information adequacy	Instances where management have expressed their view on the adequacy of information on which to base decisions	0	9	0	9
		13	**88**	**0**	**101**
(5) /Compliance requirements	Instances of how information is sourced and used to inform the influence of compliance requirements on operational decisions.	**3**	**13**	**0**	**16**
(6) /Operational actions	Instances of how information is sourced and used to inform decisions relating to the deployment of resources.				
Operations planning	Instances of how information is sourced and used to inform operational planning decisions - typically traffic planning	0	51	0	51
Subies and interdepot usage	Instances of how information is sourced and used to inform decisions on the usage of interdepot and subcontractor resources, and the basis of these decisions	0	18	0	18
Staff employment usage	Instances of how information is sourced and used to inform decisions made on staff levels and the basis used for these decisions	0	23	0	23
		0	**92**	**0**	**92**
(7) /Financial transactions	Instances of the systems and controls that produce the individual and aggregated values of financial transactions.				
Systems use	Instances of how systems are used to source the value of financial transactions	8	12	0	20
Transaction records	Instances of how financial transactions are individually recorded	0	19	1	20

A DETAILS OF NODES

Construct	Description	Number of passages-Management	Number of passages - Operations	Number of passages - Reports	Total Number of passages
		8	**31**	**1**	**40**
(8) /Classification	Instances relating to how the value of financial transactions are classified as a result of management interpretations				
Classification of costs	Instances of where the interpretation of flash information is dependent on the classification and allocation of costs and incomes. This ties into the issues of accounting techniques	20	4	0	24
Interco pricing protocols	Instances of how transfer pricing rules affect the classification of financial transactions	3	6	0	9
		23	**10**	**0**	**33**
(9) /Financial reports	Instances relating to how information is sourced and used to produce non accounting based financial summaries, reports and analysis - principally the flash accounts	0	0	0	0
Weekly flash	Instances demonstrating the production of the flash accounts as the principal profit and loss reporting vehicle	1	0	3	4
Validation	Instances of how flash information is validated by reference to operational data	14	0	0	14
Weekly profit estimate	Instances showing how profit estimates made by profit centre managers from operational, supplier and customer information are produced and used	4	1	1	6
		19	**1**	**4**	**24**
(10) /Financial targets	Instances of how financial operational plans and targets, principally the quarterly flash targets, are created and the nature of these.	**21**	**2**	**2**	**25**
(11) /Performance v target	Instances demonstrating the source and use of the information used in the assessment of the flash results against target, and the conclusions arising from these assessments	**33**	**2**	**3**	**38**

A DETAILS OF NODES

Construct	Description	Number of passages- Management	Number of passages - Operations	Number of passages - Reports	Total Number of passages
(12) /Management assessment and intention	Instances of management's assessment of past actions, and the planning and intention for future actions.				
Customer assessment	The assessment of the commercial terms and service levels to be applied to customers, and the problems associated with it.	6	4	1	11
Operational	Instances of how senior management review and assess performance	28	2	1	31
Strategic	Free thinking development of ideas and rough analysis to identify potential future directions of trading and operations. Quantifies by ad hoc scenario projections by senior management	39	5	1	45
		73	**11**	**3**	**87**
(13) /Accounts	Instances of the primary use of the core information summarised in the double entry system.				
Accounting books and records	Instances demonstrating the accounting books and records used in the processing the consequences of incurred financial transactions through the accounts double entry system	0	0	5	5
Validation of flash	Instance of how the information extracted from the double entry system is used to validate the accuracy of the flash accounts	15	0	1	16
		15	**0**	**6**	**21**
(14) /Cash flow	Example of how the cash flow consequences of trading are recorded	**0**	**0**	**2**	**2**
(15) /Cash flow assessment					
Cash flow planning	Instances showing the source of information used in reviews of future potential actions being assessed with the objective of improving the future cash flow profile	5	0	0	5
Cash flow review	Instances of information extracted from the double entry systems to provide source information on cash flow, and the use to which this information is put and the actions arising.	11	1	2	14

A DETAILS OF NODES

Construct	Description	Number of passages- Management	Number of passages - Operations	Number of passages - Reports	Total Number of passages
		16	**1**	**2**	**19**
(16) /External projections	Instances of how future financial projections are produced and used to provide an assessment of past performance and projected future performance.				
Formal assessment	Assessment of financial performance as recorded in the management and year end accounts versus financial plans. Undertaken in the management accounts commentary and board meetings.	3	0	1	4
PL projections and assessments	Instances of how financial projection for external financial stakeholders or potential stakeholders (e.g. Financial Assistance memorandum) are produced and the issues behind their use	26	0	1	27
		29	**0**	**2**	**31**
(17) /Reporting	Instances of how reporting of both historical performance and projected future performance are undertaken and reported to outside funders				
Formal management accounts	Issues relating to how formal management accounts are produced to be assessed by external financial stakeholders	6	0	2	8
Audited accounts	Year end audited accounts and related tax computations produced from double entry systems in accordance with standard accounting principles	4	0	1	5
Tax reporting and planning	The use of financial information for planning and meeting reporting requirements	1	0	0	1
		11	**0**	**3**	**14**
(18) /External funding negotiations	Instances of plans and guidelines used in negotiating external funding	**10**	**0**	**0**	**10**
Totals		**304**	**318**	**29**	**651**

B KEY ELEMENTS OF OPERATIONAL ACTIVITIES

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
(1) Demand - The provision of customer requirements and terms.						
• Requirements	The provision of information about customer volumes	Obtain	- Customer advises	- To enable operational management to initiate actions to meet customer demands and calculate sales	- Restrict to only supplying what is paid for.	- Customer presses for more than contractual liability
• Customer terms	The provision of information of customer contractual terms, (price, service requirements, profiles)	Obtain	- From agreed trading terms negotiated with customer	- To provide the price terms in calculating the value of financial transactions -	- Need 'ratchets' to cover varying volumes levels	- Disagreement with customers on terms
(2) Supply - The provision of information about resources required to meet demand						
• Resource availability	The provision of information on resource availability (vehicles, IT system, staff, subcontractors) for operational processes.	Obtain	- Allocation by management	- To enable operational management to initiate actions to meet customer demands and calculate costs	- Control of resources is key element of senior management influence and control	- Difficult to sort what is needed from what is 'nice to have'
• Staff terms	The provision of information on staff employment	Obtain	- Agreed between staff and management	- To provide the price terms in calculating the value of financial transactions.	- Essential to fit terms to availability	- Availability difficulties can damage intended performance
• Supply terms	The provision of information on supplier terms and requirements	Obtain	- Agreed with suppliers	- To provide the price terms in calculating the costs of expenditure financial transactions	- Term transparency essential to calculate value of financial transactions	- Difficult to control operational management negotiations - Dispute with suppliers on terms
(3) Operational influences - The source, use and context of information in directing and controlling operational decision making						
• Operational intention	The intention of operational managers when making operational decisions	Intent	- Operational managers bring their own interpretation of the action to take	- Take action to meet to implement intended business model.	- Ensuring actions are taken that fit with the business model	- The intention of operational management is not necessarily in line with senior management and will be driven by personal goals/circumstances -

B KEY ELEMENTS OF OPERATIONAL ACTIVITIES

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
• Impact of profitability reports	The impact of profitability targets and reports (principally flash) on operational decisions	Use	- Assessment by the operational managers of relevance of flash	- Influence operational managers to make decisions that meet senior management intended outcomes	- Main use is to provide direction not drive actions - Distribution focussed on middle management	- Financial information is confidential especially margins. As operational managers work typically on customer premises distribution of financial information is limited - Operational management do not see financial accountability as their responsibility
• Operational assessment	The collection and use of information by operational management to assess operational actions.	Use	- Information obtained from the operational management systems - The heuristics that operational management use to assess performance (e.g. vehicles earnings, pallets on truck) gained form operational management systems	- Provide a set of measures and targets that guide action to meet intended outcomes	- Currently there is no consistent approach to this issue as it varies for each profit centre. It may be that having targeted measures for each profit centre may achieve significant financial improvements	- Very difficult to drill down to the depth to identify for each profit centre the main drivers of performance given the complexity and changes in volume requirements
• Management structure	Where management structure affect how information is obtained and used	Moderate use	- Reporting line and the definition of profit centres affect the allocation of information	- Develop a management structure where causally linked income and expenditure is management together	- Breaking down the management structure is central to achieving transparency for assessment and action initiation.	- Can be difficult to isolate into manageable units causally linked income and expenditure due to complexity of the supply demand relationships - Dependant on the skills of managers in the hierarchy and their potential to use information politically
• Guideline and information adequacy	Where management have expressed their view on the adequacy of information on which to base decisions	Moderate Use	- Personal views by operational management of the fit of the information provided to their perception of their requirements	- To provide the information which together with management action can influence performance to be in	- More ‘need to know’ rather than ‘nice to have’	- Operational management interpretation of required information may be governed by personal goals

B KEY ELEMENTS OF OPERATIONAL ACTIVITIES

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
				line with intended outcomes		
(4) Compliance requirements	The source and impact of information on moderating action to meet compliance requirements.	Moderate use	- Compliance requirements (e.g. tachograph, Health and Safety) have to meet as part of providing the service to meet customer requirements. These requirements are interpreted by management	- Meet all compliance requirement	- Need pressure	- Compliance requirement change and can be difficult to interpret. - Breaches though unexpected catastrophe can potentially be devastating
(5) Operational actions - How information is obtained and used in making decisions on using resources to meet customer demand.						
• Operations planning	The use of information from to make operational decisions such as traffic planning	Use	- Operational managers use information from (2)(3) (4) to drive the decision making to meet customer requirements.	- Recruit motivate and train contract managers to operate in most profit effective manner	- Key to profitability is to set up the customer price terms and the operational procedures and resources in a way that contract managers by following normal procedures cause trading to be target levels. - The effective implementation of this dependant on using resources in a manner that minimises costs	- Difficult to know if performance is guided by management effectiveness of operational and financial set up - Changes in stakeholder actions can affect profitability and assumptions without significance being realised - Operational effectiveness can vary on staff availability / time / changes - Different profit centres requires differing levels of skills
• Subcontractor and interdepot usage	The use of information to make decisions on the usage of interdepot and subcontractor resources	Use	- Operational managers use the information from (2) and (3) to decide on the use of subcontractors in meeting the requirements of customers	- Use subcontractors in a manner that maximizes profitability while meeting customer requirements	- The use of subcontractor provides a method of having variable resources o meet variable demand - The traffic management links the income generated from subcontract work to cost, helping negotiation with the	- Quality provided by subcontractors can fail to meet customer demands

B KEY ELEMENTS OF OPERATIONAL ACTIVITIES

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
					subcontractors	
• Staff employment usage	The use of information to make decisions on staff levels	Use	- Operational managers use the information from (3) to decide on the use of staff in meeting the requirements of customers	- Get staff levels that enable profitability and customer service to be optimised	- Optimum level of staff to meet customer demand is a central driver of profitability	- Operational managers tend to use staff available whether need to or not
(6) Financial transactions - The production of individual and aggregated values of financial transactions						
• Systems set up and use	The systems, both IT and manual, that produce the value of financial transactions.	Obtain	- Systems such as the traffic management system calculate the value of financial transactions by capturing the volumes processed and valuing them on the at the agreed pricing terms	- Accurate, complete and timely recording of volumes and Incurred income and expenditure reflected in - Aggregated summaries and lists of incurred transactions to provide input to flash - Vouchers to provide the input for double entry processing	- Achievement of intention governed by systems and management effectiveness, and strongly linked to effective performance - Financial transaction formula provides link between operational and financial management, as the volume element is operationally driven	- Inability to agree values with customer or supplier - Failure to record incurred costs and expenditure accurately, especially when price contingent or transaction not visible - Difficulty in tying in invoiced values to earlier reported incurred values. - Ineffective systems either through design or management difficulties. - Production of information can be time-consuming
• Recording financial records	The recording of the value of financial transactions both as they are incurred and subsequently on vouchers such as invoices and orders.	Obtain	- The values of the accounting transactions are then recorded on vouchers such as invoices and orders			

C KEY ELEMENTS OF FINANCIAL REPORTS

construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
(7) Classification - The classification of the values of financial transactions as a result of management interpretation						
• Classification and allocation of costs and income	- The impact of the classification and allocation of costs and income on the presentation of financial information -	Moderate Obtain	- The protocol used affect the reported results of financial information (e.g. timing of expensing, profit centre to which costs are expensed)	- Produce financial reports that show clearly the relationship between causally linked income and expenditure	- The appropriate classification of costs and incomes is critical to the affective analysis of performance drivers - This is linked to the main issues of accounting techniques	- Changes in cost and income allocation lead to changes in interpretation of performance and action arising from these interpretations
• Interco pricing protocols	- The impact of transfer pricing rules	Moderate Obtain	- Services undertaken by one profit centre for another are internally charged on the bases of agreed pricing terms	- To charge at the equivalent of the outside market rate	- Need very clear guidelines as tendency is for this issue to fuel internal disputes	- Failure to implement effective intercompnay pricing can lead to wrong assessment of performance
(8) Financial Reports - The production of weekly non accounting based detailed profitability reports						
• Weekly profit estimate	- The production of weekly profit estimates	Obtain	- Made by operational directors from operational, supplier and customer information are produced and used	- To provide a snapshot of weekly previous weeks performance on Monday morning to enable swift response if necessary	- To ensure that operational managers understand the elements of profitability	
• Weekly flash	- The production of weekly flash accounts - The principle source of internal financial information, displacing accounting system based information - Produced by Wednesday evening each week	Obtain	- Aggregated reports of incurred income and expenditure are analysed into weekly statement by profit and cost centre in a standardised format - Format developed by senior management to reflect groupings of causally linked income and expenditure - Analysis done by accounts on information collected by operations and centrally	- To provide an accurate reflection of weekly profitability of each profit centre and total company - Not to comply with accounting standards but to show profitability of causally linked income over expenditure - Provide model of running profitability for future planning - To provide the basis of management bonus system and the integration of goal congruence among the senior	- Freedom from the constraints of traditional accounting systems means the cost/ income information can be gained more quickly, more targeted in highlighting the key drivers - Need effective integrated IT systems to produce the information comprehensively, that links into information used operationally, and control accuracy - Requirement for swift and	- Subject to revision on a rolling basis as unreported information is gained, or previous information reinterpreted. - Choice of classification and accounting policies adopted greatly affect results. - Accuracy dependant on accuracy of financial transaction being recorded

C KEY ELEMENTS OF FINANCIAL REPORTS

construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
				management team	non time consuming production required standardisation - Availability of detail is essential	
• Validation	- The validation of the flash accounts by reference to operational data	Moderate obtain	- Reconciliation of the flash information to operational data – i.e. number of vehicles used	- Ensure that the weekly flash statements reflect income/ expenditure ratios	- Need purchase and sales control to ensure all income and cost captured	- Unreported or inaccurately reported income and expenditure lead to wrong information and erroneous assessments.
(9) **Financial Targets**	- The creation of quarterly flash targets, against which actual performance is assessed	Use	- Assessment of known internally and externally instigated changes applied to past performance to give intended future performance - Produced by senior management and confirmed by review with middle management	- To provide a benchmark of intended future performance against which actual performance can be assessed - Provide indication of future intended performance to provide basis for projections for external funders	- Make explicit current understanding of feasible and intended profit potential - Provide very quickly as rolling model – less than a day compared to 7 months for some budgets - Effectively replacing the traditional budget procedures	- Targets quickly become out of date as unanticipated actions occur - Dependant on senior management capability and commercial awareness
(10) **Performance v target**	- The assessment of the flash results against target,	Obtain	- Actual performance is compared to target and a variances analysis is undertaken weekly to assess reason for variances of flash against plan, the causes and if blip or trend.	- To enable senior management to have a view on a rolling basis of performance against target expectations and the progress of and/or need for remedial action or change instigation	- Key element to the system as it allows for swift targeted response and rolling understanding of commercial drivers	- Continual changes in actual actions of stakeholders vs. assumed actions of stakeholders means that implementation actions have to be continually reassessed

D KEY ELEMENTS OF MANAGEMENT ASSESMENT AND INTENTION

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
(11) Management assessment and intention - Assessment of past actions and planning and intention for future actions to change business model. The mix of the intended terms, volumes, resource used and operational processes is called the business model.						
Customer	The assessment of the commercial terms and service levels to be applied to customers	Use	Assess potential profitability for new and existing customers by modelling:- - Potential sales value though estimates of future volumes (from customer or internal forecast and historic profiles) by assumptions of price terms - Linked potential costs by estimates of resources required (e.g. trucks, staff by assumptions of cost terms)	- To provide details of price terms including volume related ratchets to be charged and length of supply contract with it. - To agree price terms which lead to operational profitability	- Getting the correct terms is key to intrinsic profitability - Customer service profile change over time, so price terms must reflect the impact these have on cost/income ratios	- If prices charged are less than cost for long term contract lead to long term losses - Difficult to assess impact on interrelated services provided within the company - Prices are negotiated in competitive positions – difficult to know where to pitch
Operational	Ad hoc assessment of options for future action and their potential financial outcomes	Use	- Assessment initiated from review of historic performance v target concluding that performance is not in line with intention - Produce forward projections from historic flash adjusting for assessed future changes in volume or price profiles as gained from stakeholder advices or interpretation of historic trends - Adjust these projections by variety of options for potential response to assess best approach	- Produce action plan to initiate changes in resources applied, operational processes or organisational structure to achieve intended profitability - When implementation agreed the intended financial outcome is incorporated into the targets against which to assess the performance of the changes	- Initiating effective response is dependant on monitoring historic performance to identify emergent trends and take action swiftly - Often changing the level of resources allowed to meet supply is method to change cost income ratio by reducing costs, but can risk harming service.	- Often not clear what is driving underperformance, particularly whether is management capability, operational processes being used or under the business model operated costs are too intrinsically too high compared to revenue - All future projections are based on uncertainty – actual turnout not necessarily as predicated - Long term contractual commitments can means that target changes cannot be made - Dependant on action being initiated by senior

D KEY ELEMENTS OF MANAGEMENT ASSESMENT AND INTENTION

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
						management, and management having the time and focus to do this
Strategic	- Identifying from analysis of information available the current intended strategic direction - Free thinking development of ideas and rough analysis to identify potential future directions of trading and operations, linked to assessment of funding availability and cash flow extraction requirements from funders	Use	- Forward projections from historic information to assess likelihood of impact of major changes such as new streams of trading.	- To choose the strategy that achieves acceptable financial outcome form the perspective of senior management - To enable the financial impact of the various change options to be identified, together with the risk associated - To agree the level of intended level of profitability to be targeted	- Key focus is to set strategy that meets the requirements of external funders and within the funding parameters maximises cash flow - Need to continually reassess what is potentially feasible in the light of changing trends	- Dependant on uncertain future trading and stakeholder actions
(12) Customers Negotiations	**How information is used in negotiating terms with customers**	Use	- Modelling of projected volumes and values to meet target profitability levels. - Input is from previous models which have been validated by operational implementation	- Agreed terms that will provide target margins on the range of foreseeable volume levels	- Agreeing terms which provide target margins over the whole range of potential volumes - Need to present the terms in negotiation so that customer gets ’perceived good deal’	- Difference between practise and model can cause major margin variances - Dependant on customer compliance Customers can be difficult to negotiate with

E KEY ELEMENTS OF ACCOUNTING ACTIVITIES

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
(13) Accounts - The accounting books and records used in the processing the consequences of incurred financial transactions through the accounts double entry system						
• Accounting books and records	- The processing of the consequences of incurred financial transactions through the accounts double entry system	Obtain	- Accounting transactions – invoices, wages, cash are processed through the double entry accounting system to produce all cash and accounting information	To provide source information for - Cash control - External reporting - Validate weekly flash - Control assets - Meet compliance requirement	- Need methodical system to ensure that undertaken effectively	- Different accounting treatment to flash treatment leads to continual variations between accounting and flash
• Validation of flash	- Validate of the accuracy of the flash accounts against accounts information	Moderate use	- By reconciling in detail the income and expenditure recorded in the flash with the income and expenditure recorded in the double entry system on a month by month.	- Providing a long stop check on the validity of the flash accounts, where a potential difficulty is the non recording of incurred expenditure	- Critical it provides a direct link between the flash and cash movement	- Operational classifications
(14) Cash Flow	- The recording the cash flow consequences of financial transactions	Obtain	- Recording cash movements in double entry systems - Completion checked through bank reconciliation	- Record all cash flow transactions -	- Need effective procedures	- Failure to maintain
(15) Cash flow assessment - Procedures for review, planning cash flow						
• Cash flow review	- Review of cash flow to ensure all payments due are received and trading is within borrowing facilities.	Use	- Debtor collections monitored weekly and subject to credit control chasing - Historic trends of cash flow against borrowing capacity levels - Monitor cash balances and flows daily against available bank resources.	- The role of this part of the system is to ensure that cash payments are either made or received to cover the value of all recorded accounting transactions, which in turn reflect the financial transactions - Maximise cash flow Ensure that cash flow in line with expectation and funding facilities	- Of critical importance. Needs monitoring daily - Need set of system such as daily cash, debtors, payment approvals to provide control	- Trading out of line with projections causes difficulties - Dependant on customer paying Late customer payments / unexpected requirement can be dangerous

E KEY ELEMENTS OF ACCOUNTING ACTIVITIES

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
				Monitor if in line with expectations and if not the explanation for development of future actions		
• Cash flow future planning	- Planning and assessing future potential actions to improving the future cash flow profile	Use	- Forward projections from historic information incorporating the impact of known or anticipated changes using differing options. - To enable the financial impact of the various change options to be identified, together with the risk associated	- Take actions to maximise cash flow	- Financial structure has the major impact on cash flow Often trade off between profitability and short term cash flow – invariably the best action is to focus on cash flow	- Get it wrong and you're bust Projections dependant on future trading outcomes, which are dependant on actions of external stakeholders
(16) External assessment - The creation of projections and assessment of past performance to form the basis of information for external funders.						
• PL projections and assessments	- The production and use of financial projection for external financial stakeholders or potential stakeholders (e.g. Financial Assistance memorandum)	Use	- Projections of historic performance for assessed impact of change over longer-term periods - Period driven by context of decisions. - Produced from accounting figures in line with accounting standard	- To provide projections which will be met by the company, but stimulate the providers of external funding to make decisions which fit with the requirements of senior management - To provide to basis for reporting to external capital providers the target financial outlook of the company, so that they can assess their response	- The aim of management is to manage external funders expectations. Ideally projections and reported results ill understate actual and potential performance	- Future projections tend to be treated as absolute predictions by providers of external funders. Therefore failure to meet the projections can lead t swift loss of confidence - Validity of future projections is inherently dependant on the uncertainties relating to future outcomes
• Formal assessment	- Assessment of financial performance as recorded in the management and year end accounts versus financial plans	Use	- Undertaken in the management accounts commentary and board meetings.	- Show that complied with' good corporate practise' - Aim to ensure management covered against direct liability	- Stylised and defensive recording of information	- Danger of unexpected actions causing assessment to look erroneous

E KEY ELEMENTS OF ACCOUNTING ACTIVITIES

Construct	Description	Role	How	Intended outcomes	Prescription	Wildcard
(17) Reporting - The reporting of both historical performance and projected future performance to outside funders and for compliance requirements - the final output of the accounting sequence						
• Formal management accounts	- Issues relating to how formal management accounts are produced to be assessed by external financial stakeholders. Historic management accounts against projections given to external providers of capital	Use	- At Board meeting and in formal reports to record formally that operating within agreed financial guidelines - Historic information produced from accounting records using accounting standard - Projections are summarised from the external plans in 5 above - Subject to external scrutiny either formally as with audit accounts, or informally in that management accounts need to be compatible with annual accounts	- To protect management against attack from external suppliers of capital / financial regulations in relation to incompetent wrongful management - To comply with both statutory requirements, and meet the information requirements of suppliers of external funding - To records the calculation of cash payment to and from external suppliers of funding (e.g. dividends), the optimisation of which is the key objective of a business -	- Creating an accounting reality out of an historic position To satisfy the requirements of external funders - Management accounts not suitable for operational financial management as information to slow and reflects accounting conventions not operational realities.	- Wildcard / unexpected stakeholder actions can cause variances from target which get classified as management incompetence Maintenance of confidence is of importance - Accounts inherently subject to post hoc revisions and the financial consequences of historic event emerge
• Audited accounts	- Year end audited accounts and related tax computations produced from double entry systems in accordance with standard accounting principles	Use				
• Tax reporting and planning	- The use of financial information for planning and meeting reporting requirements	Use				
(18) External funding negotiations	- Plans and guidelines used in negotiating external funding	Use	- Use forward projections to make case for funding arrangements	- Aim to get funding arrangements that meet interests as manager and shareholder	- Need to build in degree of slack into projections as outside funders tends to view all figures as based on certainty, not the reality of subjective assessment	- Unforeseen events prove reports and projections to be shown as inconsistent thus leading to loss of faith in management team

F SUMMARY OF TRANSCRIPTS CODED

	Days	Passages	Words	Sales £k	Profit centres
Data dairy					
September	14	67	3925		
October	15	61	6336		
November	17	77	6648		
December	10	41	1582		
January	16	39	2998		
February	13	53	2932		
	85	338	24421		
Operations managers					
Manager 1		23	806	3561	2
Manager 2		44	7413	3091	3
Manager 3		53	7343	2000	2
Manager 4		40	3408	1000	1
Manager 5		39	4780	700	1
Manager 6		37	3940	1546	1
Manager 7		47	8755	1188	2
Manager 8		35	7477	2000	1
		318	43922	15086	13
Standard reports					
Accounts Routine		11			
PS Routine		18			
		29			
Total		685			
Less coded as thoughts		-34			
Coded to nodes		651			

An example of the type of coding layout is included in Appendix G. A full copy print out off all transcripts and their coding is available on request. Only a hard copy print out is available as it is not possible to export the coded passages from NVIVO

G EXAMPLE OF DATA

Monday, 03 February 2003

1) Management team meeting

• Meeting to review and agree strategy for Q4. they had been given the projections and Feb back comments • Not a detailed review of numbers, but the managers presented SWOT analysis of their own operations – see files of presentations • Agreed the outlines of the strategy, targets and key actions that required to be undertaken	Operational
• Purpose of the meeting is to ensure that all the management team are aware of the financial requirements that need to come out of their operational actions, and to feed back the operational considerations that will impact on these financial requirements	Strategic
• Reviewed the status on the tachos – agreed that need to wait and see what the ministry response is to assess how significant / what type of threat is reflected by the tacho situation.	Compliance
• Presented the bonus scheme which will be based on group profitability and be based on the flash accounts. Presented the importance of an effective PO systems to ensure that all costs incurred are captured at the point they are incurred – otherwise the flash accounts will be incomplete. The bonus scheme was therefore on the proper use of the flash accounts	Staff terms

Wednesday, 05 February 2003

1) December management accounts

• ML emailed first draft set of management accounts showing the variances from the flash to the management accounts • I reviewed focusing on the variances to identify the main problems areas. Main issues relate to cost coming out of the woodwork at Braitrim. This shows how a profit centre in problems causes the systems for collecting and controlling costs to break down as the management are so busying fighting fires, which mean the figures are not accurate, higher costs are incurred. This reinforces the need to get the systems under control to be able to know where the costs re being incurred so that a future operational plan can be implemented which will lead to acceptable financial returns.	Validation of flash
• Rejigged the management accounts so that they show both the HGH consolidated to17th January and Newco. The objective of doing this is to maintain credibility with the bank and the investors so that they have confidence in the financial management of the company so that they do not interfere and if any negative issues appear they will be supportive	PL projections

Thursday, 06 February 2003

1) Flash accounts – two day exercise finished Friday – see details below

G EXAMPLE OF DATA

Friday, 07 February 2003

1) Phone conversation with JC

- Rang to review current position
- Had meeting with PW at Braitrim to assess current position. Said reviewed the delivery profile and found that it was very inefficient with spikes for Braitrim and inefficiency at Birmingham — Supply terms
- He said that off the cuff to PW that we should close Birmingham and transfer to Braitrim and build the midlands operations around Braitrim as we do around Arla in the North. While this was an off the cuff point as we discussed became clear that very attractive courses of action — Strategy
  a) Brum transport has been losing money since on and off since the loss of the Fine contract in 1994
  b) The core of the business is the Avery contract which is out of contract so we can get out of it
  c) It overcomes the problems of admin staff, transferring from Garrison street to Brum and losses of drivers
  d) Brum has already lost £23k this month, and most of the Midland losses relate to it
  e) It will free up much central management time which has been spent of Brum
  f) Redhill and Bristol work on a small basis – why does Brum transport have to be so big
- *The interesting point is how the information is used to formulate this potential decision. Basically it is JC thinking laterally but in the knowledge that the existing operations are not working financially, and this is backed up by his assessment of the traffic management efficiency that he also sees as inefficient. As a consequence he is willing to think outside the obvious solution of increasing efficiency and getting more sales – similar to decagon made over WH1 in the North. The management accounts are providing a continuous check on the map of the financial future map to which we are working*

2) Flash accounts

- Took last week flash of ML and agreed that no changes until I updated it. Agreed that necessary to keep control totals at zero to keep the integrity of the accounts. *This is a major issue with spread sheet to analyse information as they are so flexible that the integrity of the sheets can be lost* — Validation
- Main aim of the analysis was to — Classification
  a) Put in the agreed targets so that that performance can be gauged against target
  b) Keep file consistent so that the flash can be can be reconciled against management accounts to ensure the integrity of the figures
  c) Tidy up the IKEA and furniture reporting so that the layout was reflected the key elements of the operations and were not shoe horned into an analysis suitable for logistics but not their specific attributes
  d) Change so that they reflect the interest analysis required by bank covenants the that not going to change and started on long period of analysis putting in the targets that had been agreed so that performance could be monitored against it, putting in changes to furniture and IKEA

G EXAMPLE OF DATA

• The putting of the targets worked well and clearly the variance analysis for the current week clearly showed where the areas of difficulty were a) Bristol b) Brum transport c) Braitrim warehouse d) Arla warehouse	Performance v target
• Furniture a) Spent a long time trying to get into meaningful formal. Eventually got the costs split between chargeable and non chargeable in a manner that it was cleat the margin they need to earn on the chargeable costs to cover the non chargeable costs	Classification

H EXAMPLE OF FLASH V TARGET REPORT

Example of report with variance

								This week			Cumulative		
	5-Apr	12-Apr	19-Apr	26-Apr	3-May	10-May	17-May	24-May	Target	Vari	Flash	Target	Variance
Third party sales	19,320	21,441	21,244	17,524	20,747	18,079	18,828	19,904	20,000	-96	157,087	153,000	4,087
Intererdepot sales	8,038	4,728	5,111	4,859	3,965	2,582	7,004	4,616	6,800	(2,184)	40,903	54,400	-13,497
	27,358	26,169	26,355	22,382	24,712	20,662	25,832	24,520	26,800	(2,280)	197,990	207,400	(9,410)
Cost of sales													
Drivers / agency wages	6,210	6,222	7,455	6,495	6,215	5,705	5,501	5,925	5,900	-25	49,729	47,200	2,529
Fuel	5,309	6,199	5,222	4,039	5,749	3,688	4,355	5,051	5,900	849	39,612	47,200	-7,588
Vehicle costs	6,009	6,009	6,008	6,008	6,008	5,558	5,558	5,362	5,900	538	46,520	47,200	-680
Own Fleet costs	17,528	18,431	18,685	16,542	17,972	14,951	15,415	16,338	17,700	1,362	135,862	141,600	-5,738
Subcontractors													
Internal	3,290	2,104	2,606	3,012	3,745	2,556	1,642	3,130	1,800	-1,330	22,085	14,400	7,685
External	4,265	4,430	3,870	3,635	2,775	3,695	6,135	4,555	4,300	(255)	33,360	34,400	-1,040
	7,555	6,534	6,476	6,647	6,520	6,251	7,777	7,685	6,100	-1,585	55,445	48,800	6,645
Gross profit	2,275	1,204	1,194	(807)	221	(541)	2,640	497	3,000	(2,503)	6,683	17,000	(10,317)
Administration wages	(664)	(664)	(664)	(664)	(664)	(664)	(664)	(664)	(643)	(21)	(5,312)	(5,144)	-168
OvePC26eads	(662)	(650)	(652)	(609)	(634)	(594)	(650)	(636)	(326)	(310)	(5,087)	(2,607)	-2,481
Contribution	**949**	**(109)**	**(122)**	**(2,080)**	**(1,077)**	**(1,799)**	**1,326**	**(803)**	**2,031**	**(2,834)**	**(3,716)**	**9,249**	**(12,965)**
GP %	*8.3%*	*4.6%*	*4.5%*	*-3.6%*	*0.9%*	*-2.6%*	*10.2%*	*2.0%*	*11.2%*		*3.4%*	*8.2%*	
Contribution %	*3.5%*	*-0.4%*	*-0.5%*	*-9.3%*	*-4.4%*	*-8.7%*	*5.1%*	*-3.3%*	*7.6%*		*-1.9%*	*4.5%*	
MAKE UPS													
Third party sales													
System Sales	17,568	19,646	19,426	16,035	18,991	16,737	17,347	18,332			144,082		
Surcharge	1,752	1,795	1,818	1,489	1,756	1,342	1,481	1,572			13,005		
	19,320	21,441	21,244	17,524	20,747	18,079	18,828	19,904			157,087		
Intererdepot sales													
From Bradford	4,238	1,286	919	1,472	1,307	735	1,621	1,336			12,915		
From Arla / Ben Shaw	1,976	2,749	2,875	2,262	1,647	1,429	2,962	2,827			18,727		
From Hunters	56	0	627	376	0	0	1,143	0			2,202		
From Fasson	1,585	175	688	310	932	247	1,183	449			5,570		
From Thwaites	62	0	152	438	76	171	95	76			1,070		
From Brum	120	518	(151)	0	0	0	0	(72)			415		
	8,038	4,728	5,111	4,859	3,965	2,582	7,004	4,616			40,903		
To Bristol	0	(206)	(531)	(446)	(642)	(393)	(248)	(435)			(2,900)		
To Thwaites	0	0	0	0	(200)	0	0	(306)			(506)		
To Redhill Tr	(31)	(91)	(191)	(82)	(84)	(49)	0	(19)			(547)		
To Arla/Ben Shaw	(1,403)	(792)	(285)	(285)	(1,020)	(570)	(285)	(222)			(4,860)		
To Fasson	0	(41)	(30)	0	0	0	0	0			(70)		
To Hunters	(760)	0	(49)	(190)	(278)	0	(285)	(792)			(2,353)		
To Bradford	(1,096)	(975)	(1,521)	(2,009)	(1,521)	(1,544)	(824)	(1,357)			(10,848)		
	(3,290)	(2,104)	(2,606)	(3,012)	(3,745)	(2,556)	(1,642)	(3,130)			(22,085)		
Wages													
Drivers/warehouse wages	5,473	5,523	6,870	5,885	5,716	5,324	5,044	5,732			45,568		
Agency wages	737	699	585	610	499	381	457	193			4,161		
	6,210	6,222	7,455	6,495	6,215	5,705	5,501	5,925			49,729		
Fuel													
Keyfuels	5,309	6,199	5,222	4,039	5,749	3,688	4,355	5,051			39,612		
	5,309	6,199	5,222	4,039	5,749	3,688	4,355	5,051			39,612		
Vehicle costs													

H EXAMPLE OF FLASH V TARGET REPORT

Comm Vehicle Repairs & Maint.	752	752	752	752	752	702	702	702	5,863
Vehicle insurance	699	699	699	699	699	624	624	624	5,365
Road Fund	78	78	78	78	78	54	54	54	552
CV Hire	2,079	2,079	2,078	2,078	2,078	1,777	1,777	1,777	15,720
Mobile phones	45	45	45	45	45	45	45	45	360
Trailer costs	2,357	2,357	2,357	2,357	2,357	2,357	2,357	2,161	18,660
	6,009	6,009	6,008	6,008	6,008	5,558	5,558	5,362	46,520

Example of report in line

								This week			Cumulative		
	5-Apr	12-Apr	19-Apr	26-Apr	3-May	10-May	17-May	24-May	Target	Var	Flash	Target	Variance
Sales													
Sales	11,352	11,780	10,600	9,708	11,332	9,917	11,522	11,334	11,800	(466)	87,545	94,400	(6,855)
	11,352	11,780	10,600	9,708	11,332	9,917	11,522	11,334	11,800	(466)	87,545	94,400	(6,855)
Cost of Sales													
Drivers & agency wages	1,826	1,840	1,685	1,787	2,304	1,826	1,815	1,940	1,831	(109)	15,025	14,648	(377)
Fuel	1,559	1,582	963	1,315	1,560	1,174	1,472	1,435	1,610	175	11,060	12,880	1,820
Vehicle costs	1,252	1,252	1,252	1,252	1,252	1,252	1,252	1,252	1,248	(4)	10,014	9,984	(30)
	4,637	4,673	3,900	4,354	5,116	4,252	4,540	4,627	4,689	62	36,099	37,512	1,413
Subcontractors													
Internal	3,567	3,553	2,969	2,828	3,513	2,763	3,106	3,201	3,500	299	25,502	28,000	2,499
Subcontractors	0	540	720	0	290	215	795	505	600	95	3,065	4,800	1,735
	3,567	4,093	3,689	2,828	3,803	2,978	3,901	3,706	4,100	394	28,567	32,800	4,234
Gross Profit	3,148	3,014	3,011	2,526	2,412	2,687	3,081	3,001	3,011	(10)	22,880	24,088	(1,208)
Office Salaries	(445)	(445)	(445)	(445)	(445)	(445)	(445)	(445)	(431)	(14)	(3,560)	(3,449)	(111)
OvePC26eads	(153)	(158)	(145)	(136)	(153)	(140)	(157)	(155)	(150)	(5)	(1,198)	(1,199)	1
Contribution	**2,549**	**2,411**	**2,421**	**1,945**	**1,814**	**2,102**	**2,479**	**2,400**	**2,430**	**(30)**	**18,122**	**19,440**	**(1,319)**
GP %	*27.7%*	*25.6%*	*28.4%*	*26.0%*	*21.3%*	*27.1%*	*26.7%*	*26.5%*	*25.5%*		*26.1%*	*25.5%*	
Contribution %	*22.5%*	*20.5%*	*22.8%*	*20.0%*	*16.0%*	*21.2%*	*21.5%*	*21.2%*	*20.6%*		*20.7%*	*20.6%*	
MAKE UPS													
To Brum	(3,567)	(3,553)	(2,969)	(2,828)	(3,513)	(2,763)	(3,106)	(3,201)					
Total	0	0	0	0	0	0	0	0					
	(3,567)	(3,553)	(2,969)	(2,828)	(3,513)	(2,763)	(3,106)	(3,201)					
Drivers & agency wages													
Drivers wages	1,826	1,840	1,685	1,787	1,782	1,826	1,815	1,940			14,502		
Agency costs	0	0	0	0	523	0	0	0			523		
	1,826	1,840	1,685	1,787	2,304	1,826	1,815	1,940			15,025		
Vehicle costs													
Vehicle Repairs & Maintenance	105	105	105	105	105	105	105	105			840		
Vehicle Insurance	165	165	165	165	165	165	165	165			1,318		
Long Term Hire	728	728	728	728	728	728	728	728			5,824		
Road Fund & MOT	42	42	42	42	42	42	42	42			336		
Mobile phones	15	15	15	15	15	15	15	15			120		
Depreciation P&M	83	83	83	83	83	83	83	83			664		
Vehicle sundries	5	5	5	5	5	5	5	5			40		
Vehicle Wash	49	49	49	49	49	49	49	49			392		
Vehicle parking	15	15	15	15	15	15	15	15			120		
Direct Materials	15	15	15	15	15	15	15	15			120		
Claims for damages	30	30	30	30	30	30	30	30			240		
	1,252	1,252	1,252	1,252	1,252	1,252	1,252	1,252			10,014		
Admin salaries	445	445	445	445	445	445	445	445			3,560		

OvePC26eads									
Company car repairs & maint	18	18	18	18	18	18	18	18	144
Car Lease & Insurance	0	0	0	0	0	0	0	0	0
Printing & Stationary	0	0	0	0	0	0	0	0	0
Travel & subsistence	0	0	0	0	0	0	0	0	0
Computer expenses	10	10	10	10	10	10	10	10	80
Training & Education	41	42	38	35	41	36	41	41	315
Depreciation F & F	2	2	2	2	2	2	2	2	16
Sundry office expenses									0
Insurance	80	83	74	68	79	71	83	81	619
Uniforms									0
Consumables	3	3	3	3	3	3	3	3	24
Staff Advertising									0
	153	158	145	136	153	140	157	155	1,198

APPENDIX

PROJECT 2

A SYSTEMATIC REVIEW – SCOPING REPORT

SCOPING STUDY

Research Question and role of literature review

The research question for Project 2 is drawn from Project 1, an exploratory in depth case study into the management accounting system (MAS) of one company (Hammond Logistics). The outcome of this project was a detailed model of the system through which management source and use information when making and framing decisions with financial consequences. Analysing the system from the perspective of intent to achieve shareholder value objectives, three uses were identified as critical to the achievement that objective

1) To enable management to instigate operational actions that result in financial transactions which when aggregated meet future financial objectives.

2) To fully transform these financial transaction into cash flows at timings that meet financial stakeholder requirements.

3) To transform these financial transaction into external financial reporting and projections in line with the requirements of accounting standards and financial stakeholders.

The study concluded that instigating operational actions (1) was the key use, as the cash flow and accounting reporting uses are dependent variables driven by the financial outcomes of operational actions. However although this was identified as the key use, the study only partially demonstrated how this connection between the system output and the operational actions operated. It recorded a reactive connection through the system providing a trigger for management to instigate action when performance is out of line with intention, but it did not record a proactive connection showing directly how management use the information output to specifically determine and the instigate operational actions with the intent and expectation of achieving financial objectives. The effectiveness of the system would be clearly strengthened if this proactive connection could be identified and specified for operational use. However the absence of a demonstrated connection does not necessarily mean that it does not or cannot exist, as the general exploratory nature of the Project 1 was not focussed on exploring this connection. Given its key importance, the aim of this study is therefore to extend Project 1 to assess the extent to which this proactive connection can be achieved.

This is an issue of key theoretical as well as practical importance. The use of MAS in traditional 'bean counting role' role providing a reactive assessment of performance against intent is well understood and reflected in the normative practice of producing monthly accounts compared to budgets, and in traditional standard costing variances. Its potential to proactively instigate operational actions targeted to achieve financial goals is less clear. These conclusions are reflected in the Project 1 literature review. It concluded that although the limitations of traditional reactive MAS were well

A SYSTEMATIC REVIEW – SCOPING REPORT

documented, the absence of in depth case studies has hindered the development of documented coherent theories on assessing how MAS could and was being used to instigate actions with the intent to achieve financial goals.

Project 2 is therefore structured to build on the in depth study of Project 1 to advance both practice and theory in this area which had been hampered by an absence of such studies. As the depth of the Project 1 study allowed the key use of MAS to be identified but did not identify how it operated or could operate, Project 2 can build on this gap by addressing the following research question.

'To what extent can management accounting connect operational decisions and actions with achieving financial objectives?'

The study will address the question from both the perspective of prior theory and evidence of use in practice.

To gain the perspective of prior theory the domain of management accounting will be re-explored to identify propositions that give insights that specifically fit the research question. While this will essentially cover the same domain as Project 1 it will be undertaken from the different perspective of a specific rather than general research question.

A further change of perspective relates to the interpretation of short term versus long term. In contrast to the conclusions of the Project 1 literature review, the model output from the Project 1 does not make a distinction between the short term and the long term, implicitly assuming that the long term is an aggregation of short terms. The three uses of information flow though a series of aggregations ending in reporting of financial outcomes to external stakeholders, which is turn in aggregation show long term performance financial performance. From this view the short and long term are inextricably linked. Consequently propositions from prior studies apparently linked to a particular time horizon may have the potential for reinterpretation generally, especially when to a MAS model developed from an in depth study, the absence of which has hindered much theory development in this area.

Given these changes of perspectives the outcomes and conclusion from the Project 2 literature review will be different from that of the Project 1 literature although the source studies will be drawn from the same domain. The review will aim to comprehensively draw out findings that specifically address the research question. These will then be assessed for practical potential by critiquing them against evidence of practice as demonstrated at Hammonds. The fit between the findings of prior studies and evidence in practice will then be analysed and conclusions drawn for implications for both future theory and practice. The assessment of the implications for practise will be driven by their potential to change and improve practice at Hammonds so that the system can more effectively achieve its targeted financial objectives. The assessment of the implications for theory will be driven by how the evidence from the in depth research suggest reinterpretation or extension of existing theory.

A SYSTEMATIC REVIEW – SCOPING REPORT

To achieve this gaol research findings of practice are required, analysed in a manner compatible with the findings from the literature review. This will require further research at Hammonds over and above that undertaken in Project 1 There are two significant changes compared to the research undertaken in Project 1. Firstly as with the literature review the research will have a specific focus compared to the general exploratory study of Project 1, but with the locus of the research informed by the Project 1 model. Secondly the systems at Hammonds are in a continual stage of development, not least as a result of the insights brought into the company from the research process, through my central and influential role in the development of the systems. The systems may therefore have evolved and developed to include elements that did not exist or have moved on since the Project 1 research. For both these reasons therefore the findings of the research will be of a different nature and for a different purpose to that produced for Project 1.

Given this approach, to give structure to the work to be undertaken the overall research question can be unbundled as follows

Specifically the project will assess in relation to the research question.

- The propositions given by prior studies
- The propositions given by evidence in practice.
- The fit between the propositions of prior research and evidence in practice
- The consequent implications for future theory and practice.

Literature review methodology

A focussed literature review to draw out the relevant findings of prior studies is therefore central to the Project. Its role is to identify, map and assess recommendations and proposals made by prior studies to address the research question.

A systematic review methodology based on (Tranfield and Denyer, 2003) will be used to achieve this requirement. The rigorous, structured approach it proposes fits the specific tightly focussed requirements of the research question. It has been developed by applying ideas and methods from medical science to the field of management. The methodology proposes a process that is structured to achieve a comprehensive search of all potentially relevant studies using explicit reproducible criteria covering study identification, quality assessment and extraction criteria, data synthesis and final reporting and conclusions. The process of delimiting the size and scope of the subject area is covered by a scoping review which is the role of this paper. The specific steps to be adopted in the review are formalised in a protocol to provide a plan to guide the work

A SYSTEMATIC REVIEW – SCOPING REPORT

and ensure objectivity by ensuring the steps taken are explicit. This protocol can only be undertaken when the scoping review has been completed.

The concept of quality assessment and relevance is central to the systematic review methodology. Criteria are therefore required to assess which studies meet the required levels of relevance and quality to allow for inclusion. These criteria will be developed from the 'modelling as theorising' methodology proposed by (Whetton, 2002) and used in Project 1 as a framework for ensuring valid theory development. This methodology proposes that for theory to be considered valid and relevant four sets of question must be answered – What?, How?, Why? and When/Where/Who? By deconstructing the research question by reference to these steps, four elements can be identified which need to be covered by studies if they are to be considered valid and relevant.

- What management accounting connects with what operational decisions and actions and with what financial objective?
- How does this connection operate?
- When/where/who undertakes this connection?
- Why use management accounting?

These questions will be used as a framework to test the relevance and quality of prior academic studies for inclusion in the review. If the core argument of a study addresses each of the questions, then prima facie that study will be assessed as relevant and valid. If a study addresses only some or none of these questions, doubt is placed on either its validity or relevance or both. Failure to answer the questions may be because the study does not address an area of relevance to this project and the study would then fail on relevance. Failure may also be because the study does not attempt to address the questions, in which case the study is liable to fail on quality grounds. Where these potential failures occur the study will be assessed for indirect relevance, and if a deemed valuable insight cannot be identified the study will be discarded.

These two methodologies will therefore be used to provide the framework for the literature review targeted at identifying and synthesising thematic findings which address the research question in a manner that is compatible with the finding of research into practice.

Planning Scoping review

The scoping review is therefore undertaken to 'to assess the relevance and size of the literature and delimit the subject area or topic' (Tranfield and Denyer, 2003) This is necessary to map and identify the sub fields within the overall subject area that may contain studies relevant to the research question. The target outputs of the review are

A SYSTEMATIC REVIEW – SCOPING REPORT

selection criteria and research formulae to be used in the further literature research and review

The overall subject area is defined by the research question as management accounting. The first stage in delimiting this subject area is to agree a definition of management accounting. The normative definition refers to the use of accounting information to serve internal decision makers to achieve outcomes in agreement with an organization's goals. e.g. (Horngren, 1977) (Hopwood, 1972). Within this definition the key concept for this study is the term accounting information. While this term is universally used, it is rarely defined as its definition is implicitly assumed. However this implicit definition is generally different between academic studies and day to day practitioner use. Academic studies tend to use the term to cover all financial representations of an organisation's transactions at whatever level of aggregation e.g. (Hartmann, 2000). Practitioner use on the other hand is generally restricted to transactions included in an organisation's formal accounting systems (e.g. in the context of monthly management accounts). The wider academic definition is used in this study.

The next stage is to identify the sub-fields that potentially contain studies that address the research question, and to map out their key characteristics. The aim then is to draw out keywords which reflect the relevant key concepts of the sub fields, and conclude which characteristics are necessary for studies to be considered valid and relevant so that these can be incorporated in future inclusion and exclusion criteria. The keywords are then used to provide the formulae for searching appropriate databases to identify studies relevant to the research question, and the inclusion and exclusion criteria are used to identify which of those studies identified in the search can be considered valid and relevant.

The recommended approach of (Tranfield and Denyer, 2003) uses a panel of scholars to achieve this based on their prior knowledge of the field. While as a personal study this is not directly feasible, an equivalent outcome can be achieved by using the prior research undertaken in Project 1. This was a general exploratory review of the whole field of management accounting, but from a different perspective to Project 2. As Project 1 was reviewed and accepted as valid as part of the executive doctorate academic process it can be concluded that it met its intended aims of covering the majority of sub fields generally considered of importance from an academic perspective in the overall field of management accounting. The literature used for Project 1, given that it is a representative cross sample of key management accounting literature can therefore be used as the basis of scoping Project 2.

The re-assessment of studies for Project 2 will both assess their relevance to the research question and classify them by type and characteristics. This will enable the level of correlation between relevance, type, and characteristic to be identified which will be relevant in the future for drawing on inclusion and exclusion criteria.

Relevance will be identified through testing the studies' propositions against the research question. The validity of the propositions will then be assessed through testing

A SYSTEMATIC REVIEW – SCOPING REPORT

the fit of the core arguments against the Whetton research methodology. This will provide a standardised classification of the arguments that can be used to both test the strength of the argument behind the proposition and provide a standardised format for the later synthesis of data and development of thematic findings. This analysis will enable all the stock of studies to be sorted by relevance. From these listings two main outputs can be obtained. Firstly from the relevant studies keywords reflecting the core concepts and constructs of sub fields can be drawn. Secondly analysis of studies by type and characteristic against relevance will provide a basis for the development of inclusion and exclusion criteria for the research protocol. The nature of this analysis will be dependant on the precise classifications that are developed though the analysis of the studies

The limitation of this approach is that while it will lead to a deepening of research from the Project 1 review, it will not in itself provide for a widening. Therefore sub fields not covered by the stock of studies considered will be missed. To counteract this the research protocol will include a facility to explore flexibly new sub fields that emerge as potentially relevant through the analysis process. A further widening will be achieved by the inclusion of studies reviewed in reading after the completion of Project 1 while the Project 2 approach was being formulated and agreed. This reading was of a general nature of studies that I intuitively considered relevant to the overall Project.

Implementing the Scoping Review

In total 161 studies, including those covering other domains than management accounting, had been reviewed to date, of which approximately 20 were after the completion of Project 1 (see Appendix A). These form the basis of this scoping review. All these studies had been comprehensively reviewed, incorporated on a Procite database with notes of key findings and issues, and cross-referenced to hardcopies of articles for easy access with key passages marked up. For analysis however all the data on Procite was downloaded onto Excel which was used as the sorting and analysis software

The first stage was to exclude from the initial stock of 161 studies those assessed as not relating to management accounting, using the definition of management accounting above. This reduced the stock of studies for review down to 118. The 118 were then sorted into academic articles, books and practitioner papers . Academic studies are defined as studies that are published in peer reviewed academic journals. This was undertaken on the basis that as this Project is an academic study, academic studies should form the basis of the review, with non academic studies providing a support role where insights could not be gained from academic works. This produced 66 academic articles, 41 practitioner articles and 11 books (see Appendix B). Each of these groups were then assessed for relevance and characteristics to draw out selection criteria on which to base the further research

A SYSTEMATIC REVIEW – SCOPING REPORT

Review of academic articles

Academic studies were assessed first as they are to provide the main focus of the review. The process adopted was based on the plan discussed above, but evolved on an iterative basis in response to the trends of findings. The data for the assessment was taken from abstracts and review notes, and where further clarification was required the body of the article.

The assessment process consisted of identifying the objective of the study, where feasible deconstructing the core argument of the study against the Wheeton methodology, and concluding on the implications of the finding for the research question. Where an argument that fitted the Whetton methodology could be deduced, and the objective and conclusion of the study were assessed as relevant to the research question the study was classified as directly relevant. This produced 32 studies (Appendix C). At this stage no attempt has been made to assess the extent to which the propositions address the research question, or the significance of the insights of these propositions. This will be assessed as part of the synthesis of findings and assessment of fit to the research question

The other 34 studies were assessed as failing to meet these criteria as no argument fitting the Whetton criteria and proposition directly addressing the research question could be deduced. These were then re-assessed for indirect relevance, defined as studies where conclusions gave some indirect insight into the research question, but do not address it specifically. 15 studies were identified in this category where a specific conclusion could be drawn which gave an indirect insight into the question (Appendix D). For the remaining 19 studies no relevance to the research question could be identified (see Appendix E)

The studies were then reassessed by type of core characteristics in line with the pan. The classification was based initially on assessment by data source, and where this data source was prior studies extended to the purpose of the study. The classifications are summarised below

By Type	**Characteristics**
Primary Research	Propositions informed by data produced by direct research, generally either case studies of multiple firm surveys
Theory	Propositions informed by prior studies and theoretical reflection
History	Propositions informed by historical case studies and research
Review	Meta type reviews producing assessments of prior studies
Research framework	Future research framework propositions based on assessments of prior studies.

The final outcome of the analysis of the 66 academic studies assessed is summarised below with full details behind for the rationale behind these classification included in Appendices C to E.

A SYSTEMATIC REVIEW – SCOPING REPORT

	Relevance			
Type	Direct	Indirect	None	Total
Primary Research	17	2	4	23
Theory	11	1		12
History	4			4
Review		12	6	18
Research framework			9	9
Academic	32	15	19	66

Table 1

The studies included in the directly relevant classification are the key outcome of the review, and are the core on which the identification of the keywords and other search criteria will be built. As shown in Appendix C keywords were extracted from the title and abstracts of the 32 relevant studies to reflect the primary focus of the study. The keywords were then sorted and summarised into classification of specific MA techniques, generic MA terms and systems, and general management concepts. Excluding general management concepts the incidence of these terms across the 32 studies is as follows.

Specific Technique		**Generic terms and systems**	
Budgeting	5	Management accounting	4
Activity based costing / management	5	Performance measurement/ system	3
Benchmarking	3	Management accounting change	2
Throughput accounting	2	Management control/ systems	2
Standard costing	2	Operational control /systems	2
Theory of constraint	1	Performance evaluation	2
Target costing	1	Accounting systems	1
Real time information	1	Control practices	1
Integrated cost systems	1	Cost accounting	1
Ex ante accounting information	1	Cost centre	1
Enterprise resource planning (ERP)	1	Cost management	1
Cost tables	1	Cost systems	1
Balanced performance measures	1	Information systems	1
Accounting Based on Causality	1	Product cost measurement	1
		Profit centres	1
		Variance analysis	1
	26		25

Table 2

These keywords will be used to form the basis of the keywords and keyword string to be developed in the research protocol.

The second key outcome from analysis of the relevant studies relates to identifying appropriate databases through which to conduct the further research. In the systematic review process potentially relevant studies are identified through using keyword strings

A SYSTEMATIC REVIEW – SCOPING REPORT

searches in databases. Therefore by identification of Journals which have published relevant studies and the databases which include these Journals, an indication can be gained of the databases likely to include Journals which publish potentially relevant studies. Analysis of the Journals in which the 32 relevant studies were published gives the following.

Journal	Number
Accounting, Organizations and Society	11
Management Accounting Research	5
Harvard Business Review	4
European Management Journal	2
Journal of Management Accounting Research	2
British Accounting Review	1
European Accounting Review	1
European Journal of Purchasing & Supply Management.	1
International Journal of Production Economics	1
Journal of Accounting Research	1
Journal of Management Studies	1
Production Planning and Control	1
International Journal of Production Economics	1
	32

Table 3

This table will be used to test databases to see how many of the Journals the database includes. The greater the cover the more likely it is that the database will be focussing on including Journals that contain potentially relevant studies.

The final key outcome of the analysis of the relevant studies is the studies themselves, since as they have been analysed as relevant they can go forward to be included in the final process of synthesising and formulating overall findings. However in addition those classified as indirectly relevant can be carried forward for inclusion in the formulation of final finding, if not used in the development of search criteria. As demonstrated in Table 1 these indirectly relevant studies generally relate to meta type reviews. As such they generally conclude on overall tendencies provided by prior studies, but do not develop specific propositions focussed directly on the research question. Therefore their findings will be relevant as part of the overall synthesis of data and development of thematic finding but not sufficiently focussed to provide direct input to the research criteria.

The final outcome for consideration is the use of analysis by type in the development of inclusion and exclusion criteria. As demonstrated in Table 1 relevant studies are classified as Primary Research, Theory and History types, indirectly relevant studies generally as review types, and not relevant studies as research framework and review types. This indicates that inclusion criteria should focus on studies which are classified as primary research, theory development and history types, whereas studies classified as reviews or framework development can be excluded. This is logical as these types

A SYSTEMATIC REVIEW – SCOPING REPORT

generally have an academic focus not a concern with the development of proposition with the capacity for implementation in practice.

Review of practitioner papers and books

There is a high level of contribution from practitioner papers in this domain as a result of pressure for standardisation and best practice from the professional accounting bodies and the high level of involvement of consulting firms in the development of new techniques and initiatives. Indeed many of the techniques and proposals which are the subject of academic research originate from consultancy and practice based initiatives. (Lukka and Granlund, 2002; Kaplan, 1998). However practitioner papers are not subject to the same requirement of academic rigour as those published in peer reviewed academic journals, and as a result are less likely to be underpinned by valid academic theory and coherent terminology. The development of a comprehensive argument that fits the Whetton methodology and is supported by valid evidence is unlikely to be demonstrated by practitioner papers, especially as they are generally short with the objective of demonstrating a specific point of view rather than providing the evidence to support this view. As a result practitioner studies cannot be accepted as providing a primary contribution to addressing the research question. They can have a secondary role in supporting areas covered by academic studies, or addressing issues that are relevant but are not covered by academic research.

On this basis out of the 41 studies reviewed, 15 were identified as providing a relevant insight to the research question that was not provided from the stock of academic articles reviewed (Appendix F). The core concepts reviewed by these studies were identified and compared to the keywords identified for the review from relevant academic studies. Four additional specific techniques and one additional generic term were identified in addition to those terms identified during the review of the relevant academic literature.

Specific Technique		**Generic terms and systems**	
Customer profitability	1	Contribution accounting	1
Real Options	1		
Real time accounting	1		
Value based management	1		

These will be considered for inclusion in the search strings as part of the development of the research protocol. The 15 studies identified as being relevant will be considered for assessment of the final findings. No other criteria will be extracted from this review as the focus of this study is academic, and the future review will focus on academic studies.

Books were reviewed from the same perspective as practitioner articles, and only considered as relevant if they provide a contribution which is generally accepted as providing a unique insight and approach to the research question. This led to 3 being

A SYSTEMATIC REVIEW – SCOPING REPORT

considered relevant and 8 considered as not relevant. No additional key words were identified (Appendix G)

Conclusion

The purpose of this review was to scope the field of study to be covered by the Project 2 literature review, based on the reassessment of studies reviewed for Project 1. These had been assessed as providing a representative sample of studies across the management accounting domain. From this review three main outputs have been achieved.

Firstly the re-assessment of the stock of literature from Project 1 and further general reading that has identified a total of 65 studies to go forward for inclusion in the final formulation of findings as follows:

	Direct	Indirect	Total
Academic	32	15	47
Practitioner	15		15
Book	3		3
Total	50	15	65

Table 4

Secondly the review has achieved the identification of a set of components to inform search criteria to deepen the search for relevant studies beyond the 65 studies already identified. This includes the development of a methodology to analyse studies for relevance and validity, a range of keywords to be used to develop search strings, evidence to identify databases likely to contain relevant studies, and criteria of the type of studies that are likely to provide relevant finding and the type of studies that will not.

Thirdly as part of the review a structured approach has been developed for the analysis and classification of studies for relevance, validity and identification of core findings. Moreover this approach has been tested for effectiveness against a wide range of potentially relevant studies, and adjusted to respond to emerging issues as part of this analysis. This structured approach will provide the basis for analysis of studies identified in the further deepening of the search process and will ensure assessments are undertaken in a consistent and orderly manner. The consistency and structure of this approach will then facilitate the effective synthesis of data and development of relevant thematic finding to relevantly address the research question

A SYSTEMATIC REVIEW – SCOPING REPORT

SCOPING REVIEW APPENDICES

The following sub Appendices referred to in the scoping review have not been incorporated in the overall thesis, but are available on request.

A Initial total list for review
B Total management accounts
C Academic Directly Relevant
D Academic Indirect
E Academic non relevant
F Practitioner
G Books

B SYSTEMATIC REVIEW PROCOL

REVIEW PROTOCOL

Introduction

The aim of the protocol is to outline the steps to be taken to identify, appraise, and synthesise into thematic findings studies that provide relevant insights addressing the following research questions

'To what extent can management accounting connect operational decisions and actions with achieving financial objectives?'

It builds on the scoping review which mapped and delimited the field of study and follows the proposals for systematic literature review made by (Tranfield and Denyer, 2003). As a systematic review is a process of exploration, a flexible approach will be adopted during the review, and if it becomes apparent that changes in the plan are required, these will be made during the process, together with explanation of the rationale behind the change explained

Locating studies

Initial terms of reference and search criteria

The first stage is to use keyword searches in commercial databases to identify a comprehensive range of academic studies that potentially address the research question. Both database identification and the keyword strings are developed from the findings of the scoping review. This review identified 32 academic studies assessed as relevant drawn from 13 academic Journals. Using the Cranfield library search facility three databases – Ebsco. Proquest and Science Direct – were identified as giving the best coverage as summarised below

	Number	Database	Coverage	From	To
Harvard Business Review	4	EBSCO Host	Full text	1922	Present
Journal of Management Accounting Research	2	EBSCO Host	Full text	1989	Present
Journal of Accounting Research	1	EBSCO Host	Full text	1963	2002
Journal of Management Studies	1	EBSCO Host	Full text	1964	Present
European Accounting Review	1	EBSCO Host	Full text	1992	Present
Production Planning and Control	1	EBSCO Host	Full text	1964	2002
Management Accounting Research	5	Proquest	Abstract	1992	Present
British Accounting Review	1	Proquest	Abstract	1991	Present
Accounting organizations and society	11	Science Direct	Full text	1976	Present
European Management Journal	2	Science Direct	Full text	1982	Present
European Journal of Purchasing & Supply Management.	1	Science Direct	Full text	1996	Present
International Journal of Production Economics	1	Science Direct	Full text	1991	Present
International Journal of Production Economics	1	Science Direct	Full text	1991	Present
	32				

B SYSTEMATIC REVIEW PROCOL

On the basis that these three databases covered all studies identified as relevant in the scoping review it is concluded that they will have a comprehensive cover of the field and are therefore suitable for use in this systematic review.

The keyword search strings used to search these databases are developed from a deconstruction of the research question to identify the core constructs that relevant studies must cover. The question contains three main constructs as marked in bold

‘To what extent can **management accounting** connect **operational** decisions and actions with achieving financial **objectives**?’

‘Management accounting’, as discussed in the scoping review covers a broad range of sub fields and therefore multiple constructs will be required to provide coverage of these sub fields. A range of constructs covering the sub fields were identified in the scoping study, and these will be used to cover the multiple key words required to cover management accounting. ‘Operational’ is generic word and does not need expanding. ‘Financial objectives’ is similarly narrow and can be covered by the constructs of profitability and cash flow. The following search strings can therefore be developed

Management accounting sub field (SF)	**Operations (Ops)**	**Financial objective (Fin)**
Budget! OR Benchmark OR Variance	Operation!	Profit! OR cash OR finance!
Cost!	Operation!	Profit! OR cash OR finance!
Activity Based	Operation!	Profit! OR cash OR finance!
Contribution OR variable cost!	Operation!	Profit! OR cash OR finance!
Throughput accounting OR Theory of constraints OR TOC	Operation!	Profit! OR cash OR finance!
Real time OR Enterprise resource planning OR ERP!	Operation!	Profit! OR cash OR finance!
Real options	Operation!	Profit! OR cash OR finance!
Value based management OR VBM	Operation!	Profit! OR cash OR finance!
Management account!	Operation!	Profit! OR cash OR finance!
Performance measurement or performance evaluation	Operation!	Profit! OR cash OR finance!
Management control!	Operation!	Profit! OR cash OR finance!
Operational control!	Operation!	Profit! OR cash OR finance!

B SYSTEMATIC REVIEW PROCOL

The search of the databases will target use of the keyword strings in study titles and abstracts , with the following limitations

- **Peer reviewed academic Journals** since the Project as discussed in the scoping review is an academic work
- **The last twenty years** as this covered the period of the development of new management accounting techniques such as Activity Based Costing and Throughput accounting
- **Studies relating to first world capitalist corporations** given the financial objective perspective of the research question

Feasibility test

A test run using these terms and criteria was undertaken on the Science Direct database to assess the initial impact of the search strings. As some of the sub-fields of management accounting gave few hits two further variations were developed to widen the search exposure, giving three sets

A) Initial search string (sub field + operations + financial objective)

B) Excluding ‘operations’ from the initial string on the basis that the reference in some relevant studies may be contextual rather than explicit.

C) Replace the ‘operations’ and ‘financial objective’ keywords with ‘management accounting’ to link the sub field directly to the overall field of management accounting.

This provides three sets of initial hits. These were assessed and it was concluded that hits from either the A+C strings or the B strings would give the best feasible coverage on the basis of the heuristic of 100 hits being the ideal target. The following table shows the results of this test and the revised number of hits for each management accounting sub field to go forward for further review. These base figures are likely to include an element of duplication as the search strings are searching the same data, but these will be cleared out in future analyses

Management account sub field	**SF+Ops+ Fin**	**SF + Fin**	**SF + man acs**	**Revised**
Revised = A+C	**A**	**B**	**C**	**D**
Budget! OR Benchmark OR Variance	38	308	48	87
Contribution OR variable cost!	39	225	18	57
Cost!	124	1080	92	216
Operational control!	5	5	1	6
Real options	0	12	0	12

B SYSTEMATIC REVIEW PROCOL

Throughput accounting OR Theory of constraints OR TOC	0	1	1	1
Revised = B				
Activity Based	2	17	26	17
Management account!	9	73		73
Management control!	6	35	22	35
Performance measurement or performance evaluation	12	79	31	79
Real time OR Enterprise resource planning OR ERP!	7	23	1	23
Value based management OR VBM	0	4	1	4
	242	1862	241	231

It was concluded that a similar approach would be used for the search of EBSCO and Proquest databases, with the initial search strings being modified as considered appropriate in response to the hits received. Further these search will subject to adjustments to reflect the differing syntax rules and search protocols of the differing databases. The key issue for the integrity of the study is to ensure that the decisions made, their rationale and output are fully recorded and reported.

Selecting and appraising studies

The studies initially located by the search strings above will be subject to a three stage selection and appraisal programme. The first stage is to screen out studies identifiable on a brief review as not relevant, the second to provide a more in depth assessment of relevance via a detailed abstract review, and the third to produce an in depth appraisal of studies assessed as relevant by the screening tests. This approach is adopted to provide the most efficient and time effective manner of reducing down the wide range of studies initially identified to those that are relevant

Initial screening

The first stage initial screening for relevance will be undertaken by assessing first the title, and if this suggests prima facie relevance secondly a brief review of the abstract to confirm prima facie relevance. The citation details and abstracts of the studies judged to be potentially relevant will then be exported to a software package (either Procite and/or Excel) for a secondary in depth screening.

A test screening was undertaken with the hits from the Science Direct test to assess both the feasibility of this approach the main reasons studies may be identifiable on initial review as non relevant. The table below shows the output of this test, with the ‘title’ column showing the number of studies carried forward as potentially relevant from a title review, and the ‘abstr’ columns showing the lower number of studies to be carried forward after review of the abstract.

B SYSTEMATIC REVIEW PROCOL

Management accounting	**Hits**	**Title**	**Abstr**
Activity Based	17	7	5
Budget! OR Benchmark OR Variance	87	13	7
Contribution OR variable cost!	57	10	3
Cost!	216	24	19
Management account!	73	6	6
Management control!	35	13	6
Operational control!	6	0	0
Performance measurement or performance evaluation	79	23	10
Real options	12	4	1
Real time OR Enterprise resource planning OR ERP!	23	3	2
Throughput accounting OR Theory of constraints OR TOC	1	0	0
Value based management OR VBM	4	0	0
	610	103	59

The table shows 59 studies identified by this process to go forward for further in depth screening. During the review the following broad set of exclusion reasons were developed

- Subject not relevant - Keywords identified used in different context
- Not profit based Western capitalist organisations
- Academic or teaching focus
- Not operational focus
- Already chosen elsewhere

The citations details and abstracts were then downloaded to Procite for further analysis. It was concluded that a similar exercise should be undertaken for studies located on the EBISCO and Proquest database.

Secondary screening

The output of this initial screening will therefore be sets of citation and abstracts from the Science Direct, Ebisco and Proquest databases, identified as potentially relevant and downloaded to Procite, or if not technically feasible Excel. These three sets will then be merged and duplications extracted. This list will be compared to the scoping review studies and any duplications eliminated.

The secondary screening will be undertaken by reviewing the abstract in detail for an identifiable proposition that is both academically valid and addresses the research question. This will be achieved by deconstructing the abstract to draw out where feasible propositions that can be analysed in line with (Whetton, 2002) , as undertaken

B SYSTEMATIC REVIEW PROCOL

in the scoping study. Each study will then be assessed for relevance to the research question by reference to this analysis and sorted into one of three groups – (1) directly relevant, (2) indirectly relevant and (3) not relevant/ academically valid , again following the process used in the scoping study. The statistical results of this analysis will be recorded, together with the reason for the classification decisions made.

Those studies assessed as directly relevant will go forward for detailed evaluation. Those assessed as indirectly relevant will be held over for consideration as part of the critical appraisal of final conclusions. The non relevant studies will be discarded.

Final appraisal

The studies assessed as directly relevant will then be reviewed in detail. The review format will be the same as undertaken in the scoping review, with the full texts obtained, reviewed and filed in hard copies, with key passages marked and notes of key points recorded on Procite. Results following the scoping review analysis and the Whetton framework will be summarised in Excel in the following format

Base Data	**Comment**
Reference	Author, title, data
Data used	Type of data used to inform study e.g. Case study, prior research
Focus / objective	Aim of the study
Relevance to question	Why the study informs the Project research question
Key word terms	Key word used in search
Journal	Journal name
Whetton analysis	
What management accounting	Sub field(s) of management accounting covered by the study
Connects to / impacts on	The nature and strength of the connection / impact
What operational decisions /actions	The operational decisions / actions affected
How connects	The mechanism of the connect
Why do it	Authors assessment of the point of the connection
When / where / who connects	The organisational context in which the connection occurs

This process is likely to lead to some studies being reassessed as either not relevant or indirectly relevant if the full text analysis does not match that of the abstract. Details of any reassessments and their rationale will be recorded.

The resultant stock of studies assessed as directly relevant and analysed in a standard format will then go forward for synthesis to produce thematic findings. Those identified as indirectly relevant will also go forward for later use as part of the critical assessment of the final findings. Full statistical records will record the outcomes of these assessments.

B SYSTEMATIC REVIEW PROCOL

Synthesis and findings

The purpose of this section is to produce thematic findings that address the research question, and critically assess these findings to confirm that they achieve comprehensive and valid coverage.

The studies from the Scoping review will be reintroduced and merged with the Protocol studies to produce three sets analysed as - (1) Directly relevant academic studies, (2) Indirectly relevant academic studies, (3) Relevant practitioner studies. These will then be sorted into the following types in line with the scoping review categorisation.

By Type	Characteristics
Primary Research	Propositions informed by data produced by direct research, generally either case studies of multiple firm surveys
Theory	Propositions informed by prior studies and theoretical reflection
History	Propositions informed by historical case studies and research
Review	Meta type reviews producing assessments of prior studies
Practitioner	Studies produced by practitioners
Research framework	Future research framework propositions based on assessments of prior studies.

The directly relevant studies will then be graded in relation to their assessed response to the 'To what extent ?' element of the research question. While the grading classification may be subject to reinterpretation, the start classification will grade studies against the extent of the connection proposed by the study between management accounting and operational actions as either

A) Totally interlinked

B) Strong connection

C) Some connection

D) Weak connection

E) No connection

These five groups of studies will then be assessed to draw out the relationship between the nature of the propositions analysed by the Whetton framework, the strength of the connection and the type of study. This analysis will be undertaken on an inductive basis and the exact nature of the output is dependant on the data that emerges from the analysis. However the target output will be an analysis of the extent to which specific management accounting practices can facilitate a connection between operations and the achievement of financial objectives, and the context and nature of this connection (How, Why, Where/When/Who). From this the intention will be to draw conclusions relating to strength of the potential connection, how this can be achieved, the type of study that provides this connection, and what the output intention of the connection is.

B SYSTEMATIC REVIEW PROCOL

Each of the final groups of thematic finding will be supported by a set of academic studies. As a final check to ensure as wide a cover as feasible the citation lists of these studies will be reviewed for titles that appear to directly addresses the question, are recent, and are included in a 'A' list journals, as defined by current academic citation rankings. This will provide a further check to ensure that as far as is feasible all studies which may be considered of significant academic relevance have been covered. Any studies identified in this manner will be fully reviewed as outlined above, and conclusions if appropriate used to extend the original findings.

The final stage will be to provide a critical assessment of the comprehensiveness and validity of the findings by comparing them against the insights that can be drawn from academic studies classified as indirectly relevant, and from practitioner studies and book identified as relevant. In the scoping review the majority of studies classified as indirectly relevant were academic reviews of prior studies, and it is likely that this pattern will continue with new studies identified. These studies tend to conclude on cumulative academic state of knowledge in their particular field, and its gaps and difficulties. Where these conclusions have reference to the thematic findings, they will be compared and contrasted to assess the extent to which they support the findings or suggest potential changes or difficulties. The potential relevance of practitioner studies and books is to provide a separate assessment of the themes and issues covered. The practitioner studies and books will be re-introduced from the scoping review and if appropriate from re-classification of new studies. Again the broad conclusion of these studies will be tabulated in consistent manner and compared to the findings of this review. From this it will be possible to identify if there are themes and issues that emerge as relevant in practitioner studies and books not covered in academic studies. If so the potential implications will be assessed as part of the overall conclusion of the findings

The final output of this section is intended to be a tabulated summary of findings, classified in line with the Wheeton framework. This is intended to provided a codification of the core findings of prior studies on the extent to which specific management accounting practices can provide a connection between operations and the achievement of financial objectives, and the contexts in which this can occur

Reporting and utilisation

The intended output of the review will therefore a thematic assessment of theories developed to answer the research question. In parallel to this, as discussed in the scoping review, research is being undertaken into how the research question is addressed in practice. The intention of this research into practice is to produce output which classifies the implicit theory evidenced in practice which addresses the research question. The intention is to undertake this classification in the same format as that used in this literature review. This consistency of analysis will then allow the effective critiquing of the findings from theory against the finding from practice. From this critique the intention is to draw proposals out for both improvements in practice, where

B SYSTEMATIC REVIEW PROCOL

evidence in practice disputes or extends existing theory, the further development of theory.

Reference List

Tranfield, D. and Denyer, D. (2003) Towards a Methodology for Developing Evidence-Informed Management Knowledge by Means of Systematic Review. *British Journal of Management* **14**, 207-222.

Whetton, D. (2002) Modeling-as-theorizing: A Systematic Methodology for Theory Development. In: Partington, D., (Ed.) *Essential skill for Management Research*, pp. 45-71. London: Sage]

C SYSTEMATIC REVIEW SEARCH PROCESS

See Excel file Pages 316 to 329

D-1 ANALYSIS BY JOURNAL NAME

Journal Name	Scope	SR	Total
Both SR and scoping study			
Accounting, Organizations and Society	20	3	23
Management Accounting Research	7	15	22
Harvard Business Review	5	2	7
Journal of Management Accounting Research	3	1	4
International Journal of Production Economics	2	7	9
British Accounting Review	2	3	5
Strategic Finance	1	1	2
Journal of Accounting Research	1	1	2
Book	4	1	5
	45	34	79
Scoping study only			
Management Accounting	4		4
Financial Management - CIMA	3		3
Pamphlet	2		2
Journal of Accounting and Economics	2		2
Good Practise Guide - ICAEW faculty of finance and management	2		2
European Management Journal	2		2
Technical Briefing - CIMA	1		1
Production planning and control	1		1
Organisation Studies.	1		1
Management quarterly - faculty of finance and management	1		1
Management International Review	1		1
Management Accounting Research.	1		1
Journal of Management Studies	1		1
ICMA	1		1
European Journal of Purchasing & Supply Management	1		1
European Accounting Review	1		1
CAMI	1		1
Accounting and business research	1		1
ACA	1		1
	28	0	28
SR study only			
International Journal of Production Research		6	6
Scandinavian Journal of Management		2	2
Production Planning & Control		2	2
Management Decision		2	2
International Journal of Operations & Production Management		2	2
Industrial Marketing Management		2	2
Cornell Hotel and Restaurant Administration Quarterly		2	2
AACE International Transactions		2	2
Technovation		1	1
Refrigerated Transporter		1	1
Quality Progress		1	1

D-1 ANALYSIS BY JOURNAL NAME

Journal Name	Scope	SR	Total
Pulp & Paper		1	1
Production & Inventory Management Journal		1	1
Managerial Finance		1	1
Long Range Planning		1	1
Logistics Information Management		1	1
Journal of the Operational Research Society		1	1
Journal of Operations Management		1	1
Journal of Business & Industrial Marketing		1	1
International Journal of Technology Management		1	1
International Journal of Management		1	1
International Journal of Logistics: Research & Applications		1	1
International Journal of Logistics Management		1	1
International Journal of Hospitality Management		1	1
Integrated Manufacturing Systems		1	1
Information Systems Research		1	1
INFOR		1	1
Industry Week		1	1
Financial Management (CIMA)		1	1
Financial Executive		1	1
European Journal of Operational Research		1	1
European Accounting Review		1	1
Economy & Society		1	1
Decision Sciences		1	1
Computers & Operations Research		1	1
Commercial Carrier Journal		1	1
Chemical Engineering and Processing		1	1
British Journal of Management		1	1
Accounting, Business & Financial History		1	1
	0	51	51

D-2 ANALYSIS BY JOURNALS TYPE OF PUBLICATION

Journal Name	Classification Type				
	Fin	Ops	Gen man	Other	Total
ACA	1				1
Accounting and business research	1				1
Accounting, Business & Financial History	1				1
Book	1				1
CAMI	1				1
Economy & Society	1				1
European Accounting Review	1				1
European Accounting Review	1				1
Financial Executive	1				1
Financial Management (CIMA)	1				1
ICMA	1				1
Management Accounting Research.	1				1
Management quarterly - faculty of finance and man	1				1
Managerial Finance	1				1
Technical Briefing - CIMA	1				1
Book	2	2			4
Good Practise Guide - ICAEW faculty of finance and management	2				2
Journal of Accounting and Economics	2				2
Journal of Accounting Research	2				2
Pamphlet	2				2
Strategic Finance	2				2
Financial Management - CIMA	3				3
Journal of Management Accounting Research	4				4
Management Accounting	4				4
British Accounting Review	5				5
Management Accounting Research	22				22
Accounting, Organizations and Society	23				23
AACE International Transactions		2			2
Chemical Engineering and Processing		1			1
Computers & Operations Research		1			1
Decision Sciences		1			1
European Journal of Operational Research		1			1
European Journal of Purchasing & Supply Managmt		1			1
INFOR		1			1
Integrated Manufacturing Systems		1			1
International Journal of Logistics Management		1			1
International Journal of Logistics: Research & Applics		1			1
Journal of Operations Management		1			1
Journal of the Operational Research Society		1			1
Logistics Information Management		1			1
Long Range Planning		1			1
Production & Inventory Management Journal		1			1

D-2 ANALYSIS BY JOURNALS TYPE OF PUBLICATION

Journal Name	Classification Type				
	Fin	Ops	Gen man	Other	Total
Production planning and control		1			1
Quality Progress		1			1
Technovation		1			1
International Journal of Operations & Production Mangmt		2			2
Production Planning & Control		2			2
International Journal of Production Research		6			6
International Journal of Production Economics		9			9
British Journal of Management			1		1
International Journal of Management			1		1
Journal of Management Studies			1		1
Management International Review			1		1
European Management Journal			2		2
Management Decision			2		2
Scandinavian Journal of Management			2		2
Harvard Business Review			7		7
Commercial Carrier Journal				1	1
Cornell Hotel and Restaurant Administration Quarterly				2	2
Industrial Marketing Management				2	2
Industry Week				1	1
Information Systems Research				1	1
International Journal of Hospitality Management				1	1
International Journal of Technology Management				1	1
Journal of Business & Industrial Marketing				1	1
Organisation Studies.				1	1
Pulp & Paper				1	1
Refrigerated Transporter				1	1
Grand Total	88	40	17	13	158

D-3 ANALYSIS BY RESEARCH DATA SOURCE

Data source	Scope	SR	Total	Scope	SR	Total
Case study	22	21	43	30%	25%	27%
Prior studies	27	16	43	37%	19%	27%
Simulation		23	23	0%	27%	15%
Practitioner	17	4	21	23%	5%	13%
Survey	5	9	14	7%	11%	9%
In depth case study		10	10	0%	12%	6%
History	2	2	4	3%	2%	3%
	73	85	158	100%	100%	100%

D-4 ANALYSIS BY AGE

Date	Scope	SR	Total
1972	1		1
1980	1		1
1984	1		1
1985		1	1
1986	1		1
1987	3	1	4
1988	1	1	2
1989		1	1
1991		1	1
1992	2	4	6
1993	1	3	4
1994	1	4	5
1995	2	5	7
1996	2	2	4
1997	4	5	9
1998	7	4	11
1999	3	10	13
2000	8	8	16
2001	16	8	24
2002	14	13	27
2003	5	12	17
2004		2	2
Total	73	85	158

D-5 ANALYSIS BY PRINCIPLE CONCEPT

	SR	Scope	Total
Techniques			
ABC	11	8	19
TOC	10	2	12
Product costing	10	1	11
Target costing	3		3
Real options	2	1	3
ABC/TOC	3	1	4
Real time accounting	5	2	7
MA use	6	8	14
MA history	2	5	7
Cost accounting	6	5	11
	58	33	91
Practices			
MCS	6	6	12
PMS	9	8	17
Budget	4	12	16
VBM	2	2	4
MA change	5	5	10
MA current	1	7	8
Grand Total	27	40	67

E THEMATIC FINDINGS BY STUDY

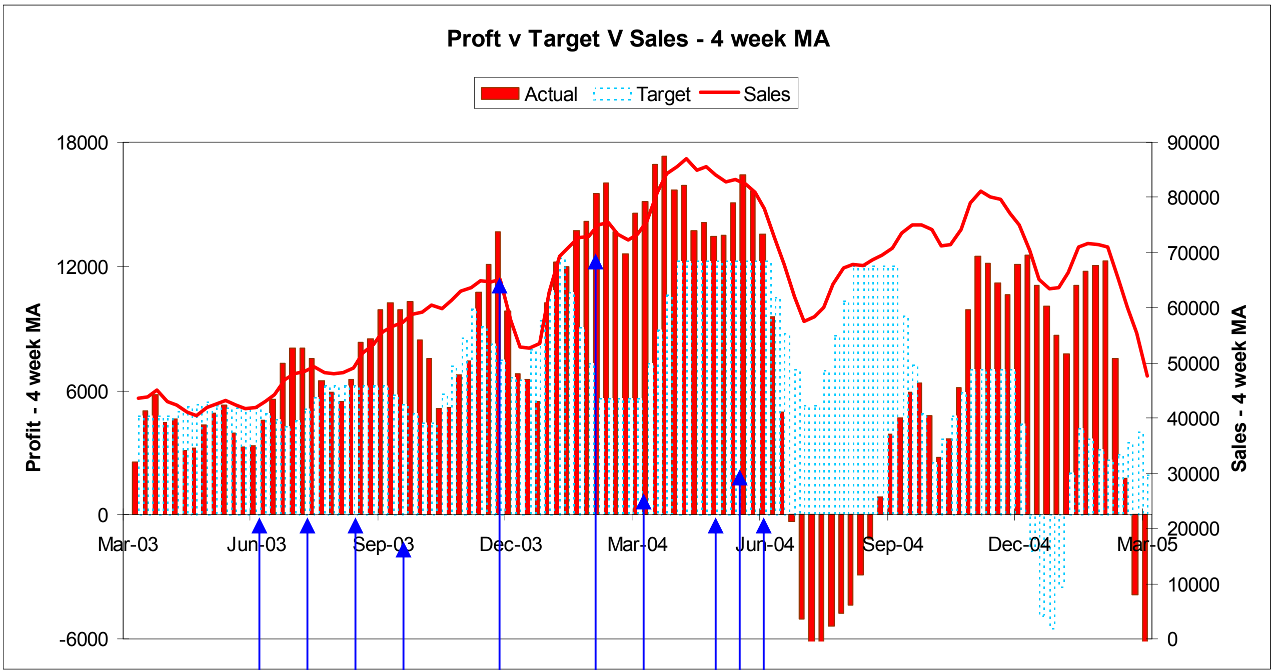
See Excel file Pages 337 to 362

APPENDIX

PROJECT 3

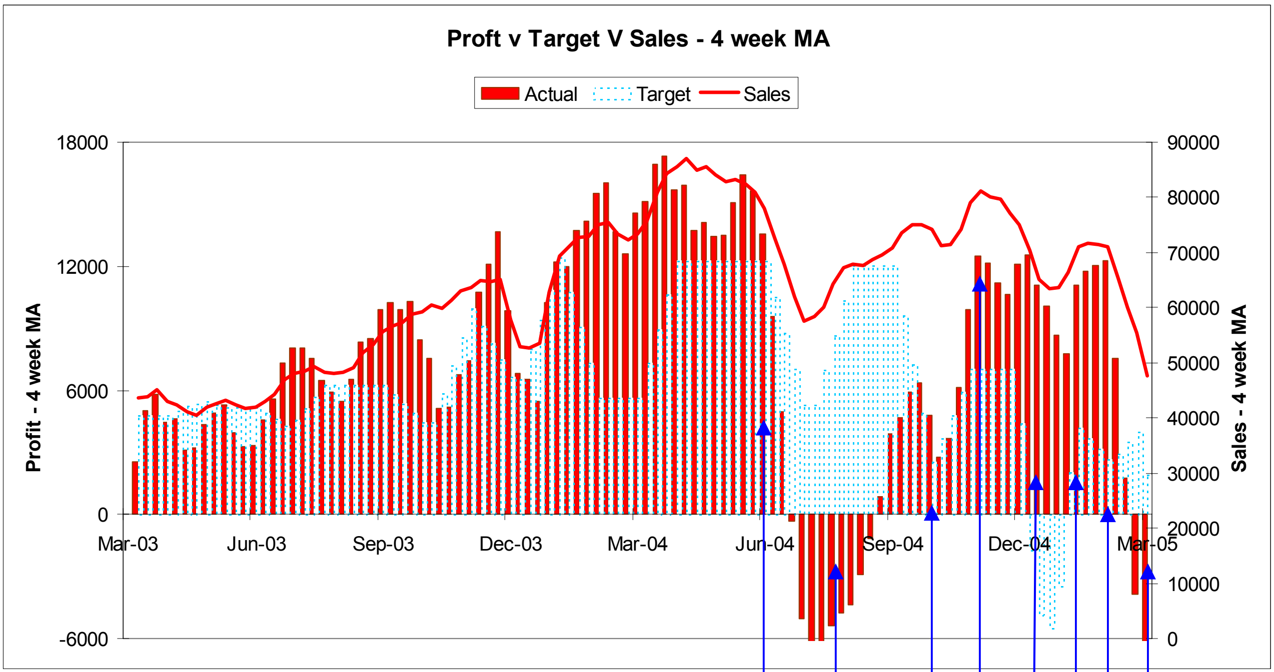
A-1 PC20(b)

SUMMARY	Wk cont	Margin	Var v Targ	Var v Mth
Mar-04	436,492	15.0%	105,423	(65,341)
Mar-05	322,562	8.7%	(31,861)	41,512



Date	Summary of Data	Action/ Issues
Jun/Jul 03	– Rejig financial reporting to get analysis more in line with operational realties – Made difficult as the charging method are not clear are prices agreed in retrospect with a high degree of deal being made – Profitability moving to target as benefit of earlier remedial action flow though	Reporting format. Benefits of remedial action
Aug 03	– Agree that management stretched and operational issue not always being addressed. – High agency costs affecting profitability	Operational issues
Sep 03	Conclude that adequate profitability achieved, but management still ‘flaky’ with high agency dependency	Operational issues
Oct 03	– Change senior management – PY in charge – Produce projections which tie into PC 20(B) budgets – Situation now assessed as sound	Management changes
Dec 03	Strong profit in run up to Xmas	
Feb 04	– Strong trading performance on back of customer sales – PC 20(B) changing method of distribution to be based centrally, not on stores	Customer changes
Mar 04	– Pricing up new proposals, based on assumptions of the cost required to operate and drop densities	Product costing
May 05	Outlook for the future unclear. PC 20(B) seems to be splitting distribution – some from central warehouse (CD) and some from stores (HDS).Seems we will get the CDS, but position from stores is less clear.. Hope extra CDs will compensate for losses from stores	Customer negs
Jun 04	Situation is unclear as customer timetable and requirement fluctuates. As operational requirement is not clear, cost required are not clear. However customer will operate o open book – although they have a target price of £49 per drop	Product costing
End Jun	– Contract to operate delivery from store terminated at end of June, although continue to use Croydon for the CD deliveries. – Nature of the contract changes – become CD not store delivery	Termination

A-1 PC20(b)



Date	Summary of Data
July 04	– Manager (PY) is under suspension fro sexual harassment – Clear that no plan to reduce costs to respond to termination of store work – Had thought that under open book could reclaim all costs, but this not seems not feasible – all items on open book have to agreed – Instigate immediate operational and financial review – Losses reported as being because the operational requirements more costly and onerous than initially assessed
Aug 04	– Become clear that the reason for the loss is that no change made to our cost base in respond to changed contract – Do in depth analysis of both our cost base, and the operational requirement to provide basis for negotiations with PC 20(B) – Loss reported as based on max price of £49 per drop that assessed that PC 20(B) would definitely accept
Sep 04	– Negotiation with PC 20(B) to try and increase the price by demonstrating the costs though open book, while at the same time identifying process improvements to reduce the cost. – Appoint new manager (RW) to achieve this
Oct 04	– Initial feedback to changed processes is positive, but will take 8 weeks for benefits to flow through
Nov 04	– Negotiations continue. Agree that if cannot get acceptable terms, need to withdraw from the contract – Further operational improvements instigated by RW reduce cost and lead to the [potential of a £6k profit on the basis of PC 20(B) projected volumes. – Indication are that PC 20(B) will meet the charges we have made, however situation still uncertain given' complex and ever changing decisions processes at PC 20(B)
Dec 04	– PC 20(B) have decided that want to go out for a quote for CD business, but they want one carrier for the whole of the UK (currently HLG do only South)
Jan 05	– New quote based on historic information
Mar 05	Result down as Bristol closed and all throughput lost to cover Western based vehicles

A-1 PC20(b)

DOCUMENTARY DATA – RELEVANT EXTRACTS

Document '02 SSS Board May03'

4.2. Negotiations were ongoing to extend the number of PC 20(B) stores being covered by the company

Document '03 Diary June~03

Moved onto PC 20(B) which is below target agreed that aim is as follows
1. Sort out the systems And KPI so that have got operational control of trading currently the operations tend to move to crisis if management forget to do thing
2. Produce the financial projections and reporting in a manner that fits with and is reconcilable with the operation projections this will then give a link between ops and finance
3. Get the management structure in place so that both the ops and KPI / financial reporting is controlled

Thursday, 26 June 2003. PC 20(B)
· Did variance analysis on flash which supported the idea that PC 20(B) currently needs looking at as discussed above
· Phone conversation with JC, CB and PW to identify the way forward agreed that JC to review profitability from an operational point of view i.e. how many trucks staff etc for each type of activity and I would review it by comparing the original budget on which the pricing was based against the flash
· By the end of the day JC had identified how many staff / trucks needed to deal with the budgeted demand and was working his way towards getting a simple KPI on which to base the work planning. The problems related to getting 10 drop per shift when 12 drops per shift was required. The non transport parts seemed OK, and the other issue was to reduce the number of agency
· Agreed that I would convert this to a target going forward where the actual can be compared to planned target to see if in line

JC had spent all Friday going in detail through the PC 20(B) budget working out by each mini profit centre the costs and income, and identifying changes needed to bring back to the level of profitability by reducing costs or increasing income. This is a great example of tracing the operational actions through into the financial consequence. I then redid the layout of the targets to incorporate the reporting of the changes that JC recommended. Will review as part of the targets

Document '03~ Aarco Group Commentary for June 03

· The two PC 20(B) accounts also showed a small loss for the month and profit for the quarter, as sales volumes slowed. Further remedial actions continue to be undertaken to move to profitability.

Document '04 Dairy July ~03

Midlands review PS, JC,PW - Rebuilt PC 20(B) P+L so that shows profitability by mini profit centres and could tie back to specific actions on the ground. Aim is to tie performance into KPI in particular the number of drops per vehicle per day

· Spent much time reconciling the sales at PC 20(B). Currently three set of sales budgeted on which initial invoice is based, calculated as shown in the flash, and actual which is the revision to the budget and agreed with PC 20(B). This to date has been agreed by PY who is out of the operational loop. Again evidence of how need to get the lines of reporting and the procedures in place to get the connection between ops and finance.

· PC 20(B). JC has spent much time in the past two days trying to sort out a target for PC 20(B). He reported exasperation as all using different assumptions (e.g. CBs complex spread sheets, management not knowing how many staff, sales being estimated and checked by PY, differing accounting figures) Agreed that the key is to get a budget which shows the planned links between income and expenditure and then follow that through to test if it happens in practise. THIS IS A VERY STRONG REQUIREMENT OF THE USES OF ACCOUNTS

A-1 PC20(b)

· PC 20(B) forecasts and layout were extensively adjusted to reflect the nature and pricing of the service we provide for them. Spent much time rejigging the accounts so that they reflect our understanding. The target is now the intention to receive and will be used to assess whether we are implementing the operational changes to bring into line with intention. It will provide a classic benchmark for assessing performance.

Document '04 HLG Board Jul03

· At PC 20(B) continued progress on Profit improvement depended on both increasing operational efficiencies, and in particular staff recruitment, retention and utilisation, and where appropriate revising commercial terms.

· Expansion in further PC 20(B) stores provided potentially strong growth opportunities. However it had become apparent in the negotiation for the Cardiff store which are in a late stage that there is strong competition from a local supplier able to offer cost savings as a result of locally based synergies. It was agreed that this might reflect a continuing threat for other locations and to counteract this, innovative systems based solutions should be proposed to provide the customer potential service and national synergies that are not available to locally based suppliers

Document '04~ SSS Ltd Group Commentary for Jul 03

· The two PC 20(B) accounts traded at above target expectations as the benefits of earlier remedial actions flowed through. However future profitability is likely to fluctuate in response to the changing demand levels for PC 20(B) products.

Document '05 Dairy- August~03

· Becoming clear that management of PC 20(B)s is hard work, and that this is soaking up time and energy of Paul Walker e.g. constant pressure from customer, admin always behind, H+S issue at both Bristol and Croyden not being dealt with by the staff. Agreed that would recruit a new GM to support PW solely responsible for PC 20(B). EXAMPLE OF THE NEED TO KEEP CONTROL INCREASING OVEPC26EADS AND THUIS COSTS

3. PC 20(B) Croydon still has very high agency - £8k on the transport alone. This cannot help control or profit.

Document '05~ SSS Ltd Group Commentary for Aug 03

· The two PC 20(B) accounts and PC 35 traded in line with trend and expectations as their trading profile is not adversely affected by holiday factors.

Document '06 Diary~ September~03

8. PC 20(b) Croydon. Seems to have moved into profitability and adequate service. Management and staff levels still flaky therefore recruiting extra managers to provide further strength, and increase wages to eliminate dependence on agency

Document '06~ SSS Ltd Group Commentary for Sep 03

· The PC 20(B) accounts have now been transferred to provide tighter management focus for this specialised operation.

· PC 20(B) Contribution for the month was £35k and for the first six months was £137k.

Document '07 Diary~October~03

Wednesday, 01 October 2003 - Meeting with PY, JC PC 20(B)
· PY has been put in charge of PC 20(B)s as the cost / income and operational structure is totally different to the rest and it need senior management focus
· Reviewed the preliminary forecast I had produced. Agreed to replace it with the forecast that produced by CB to provide the budgeted costs for PC 20(B) which is based on their budgeted sales projections. This is done by CB to advise PC 20(B) how much we are likely to be charged, but includes out margin and ovePC26ead allocation as cost.

A-1 PC20(b)

Agreed then that would convert this to the quarterly target. Before have not ensured that this and the flash was consistent. Actions agreed

- CB to send agreed sales and cost budget to convert to flash for Q3
- PY to forward Bristol Budget by 6th Oct for conversion to flash
- Flash forecast for Q3 to be updated for new agreed figures with PC 20(B)

· Reviewed the weekly returns of costs that are advised by our staff at PC 20(B). It seems that no consistent approach as to which figure we use and when we take an estimate. After much discussion agreed that the following approach to be taken

- The weekly returns to show all the variable costs i.e. those that change on a week by week basis
- ML to produce a list of all the fixed costs based on lease and incorporate as part of the flash
- Sort salaries right as agreed with PY and change salaries summary
- Sort out fixed costs with ML for inclusion in the flash figures

· Invoicing and cash payment actions agreed. Cash payment had become behind

- ML to invoice Oct Croydon now and Nov Croydon on 10th Oct per agreed price
- ML to raise Oct invoices on same basis as he did for Sep and rise immediately
- Sort out fixed cost with ML for inclusion in flash figures
- PY to sort payment of Sept cash of £490k ASAP with Nigel Porter
- PY to ensure that Oct invoice paid mid Oct even if late

PC 20(B) now with PW there was potential for growth and division at good location, and management team in place

PC 20(B) extra sales

· Started to update the flash for the extra sales per PY. When came to it the sales provided by PY did not tie into those in the flash. Are we using different numbers? Phone PY to investigate.

Document '07 HLG Board Oct03.

3.4. PC 20(B)

· Relationships and operational and financial performance were currently sound at both stores

· The medium term objective was to continue to build on this strong position by further improvement in management and control systems. This should then provide a platform to gain new stores as they become available in the new year.

Document '07~ SSS Ltd Group Commentary for Oct 03

5. PC 20(B)

· Contribution for the month was £67k and for the first seven months was £171k.

· These results are an improving trend currently supported by above plan volumes

Document '08 Diary~November~03

Cost not recorded e.g. £10k of expenditure at Bristol PC 20(B) for crossing the Severn Bridge, £7k of costs for congestion charges in London where we are being fined at £40 per day as on rented trucks no one bothers to pay the accounts

and PC 20(B) is £7k off target. Pulled out flash and did comparison against both budget and previous weeks with the same sales

· Forwarded email from PY dated Thursday re Croydon. He has done a full analysis of the variance and identified where the operational resources used have changes against budget and against previous week. I am assuming he will then use this to reassess the level of resource required in the future against current estimate of demand to get mix of cost vs. revenue to give target profitability

Document '09 Diary~December~03

· Got flash profit at £40k better than Monday projection of £26k, mainly because of PC 20(B). Discussed with JC and it is very much to just keep control until Xmas. Will do Q4 projections after Xmas and go round and agree actions to take then

A-1 PC20(b)

· Flash produce about lunchtime in line with Monday's forecast - £40k profit but major earners were PC 20(B) , Steelcase and PFL. Did variance which showed no major changes from current trend and expectations

Document '09~ SSS Ltd Group Commentary for Dec 03

5. PC 20(B)

· Contribution for the month was £52k which was a good performance as the strong store pre Christmas sales continuing right upto the Christmas holiday compensated to some extent for the lost sales over Xmas

Document '10~ SSS Ltd Group Commentary for Jan 04

5. PC 20(B)

· Contribution for the month was £85k.

· This continued the current strong performance with trade at PC 20(B) stores continuing to be very strong

Document '11 Dairy~Feb~04

Meeting with JC

Discussed the profit improvement first. The need for implementing the changes will be supported by the flash figures, which have been revised down following overstatement on PC 28 (a) and PC 20(B) Croydon to a loss of £1k and a variance of £90k against forecast.

Analysed the flash it showed profit of £40 on the back of PC 20(B) Croydon with £19k.

Document '11 HLG Board Feb04.

· PC 20(B). Future volumes were unclear following the recent high levels of demand, and therefore the projection were subject to high degree of uncertainty

4.4. PC 20(B)

· The outlook for PC 20(B) had been strengthened by the provisional agreement to provide distribution services for goods to be distributed from the main warehouse at Peterborough direct to customer homes. This agreement places the company in a good position to consolidate a long term profitable relationship with PC 20(B)

· The objective is to convert the current trading patterns to the new proposals over the next month while retaining services quality, providing proactively innovative ideas to the customer and marinating profitability levels

Document '11 SSS Board Feb04

3.3. A new contract had been provisionally with PC 20(B). This was for distribution from the central warehouse direct to consumers' homes. This will be implemented in a phased manner over the coming year. The strategic objective was to continue to consolidate the long term trading relationship with PC 20(B)

Document '11~ SSS Ltd Group Commentary for Feb 04

5. PC 20(B)

· Contribution for the month was £82k.

· This continued the current strong performance with trade at PC 20(B) stores continuing to be very strong

Document '12 Diary~Mar~04

Discussion with JC
Had catch up discussion with JC and reviewed informally the state of play. There are key issues relating to PC 20(B) new contract…….. Have full review on 31sy Mar with relevant ops managers to assess …….. and where we are on PC 20(B)

PC 20(B) meeting PS, JC, DP, PY, RW, MJ

· Meeting to discuss the potential new PC 20(B) wholesale distribution deal. They had a meeting from 8 to 11 to review how it was to be done operationally, and I produced a model pricing the potential new contract based on the

A-1 PC20(b)

information I had in January. I then joined the meeting at 11 to update the model for the assumptions on the staff and resource requirement needed to do the job. The purpose of the meting was therefore to ensue that the costing and pricing of the operational implementation plan met the required financial target.

· The model I produce composed of operational assumptions e.g. staff vehicles, fuel. We went through and checked out for each item of resource (e.g. drivers) both the price and the quantity that will be required to do the job. The productivity was based on our existing experience e.g. In London for zone A 2 staff plus 7.5 ton van can do 17.5 drops in a 10 hour shift. The outcome confirmed that on the basis of the price of £38 provisionally agreed this could be done profitability. The same exercise was done for Bristol and it was found to be break even. We reviewed why and agreed that it was because the population is so dense in London the drops are close together. In Bristol which cover the surrounding area the density was not so great. As PC 20(B) insist on a standard charge of £38 for all areas London is potentially more profitable than other areas of the country in principle. We tested the sensitivities and found that if drops per vehicle per shift reduced by 30% it was still profitable, but much less. This exercise was based on the low volumes 50k drops a year. At high volumes £90k per year this was much less profitable.

· The cost structure was a mix of direct / variable type cost and fixed. The direct costs trucks and drivers id the same for all volumes provided there is full utilisations. This can be covered by guaranteed of minimum form the customers or by having an element made up of spot hire and agency drivers that can be turned on and off this creating flexibility but losing on service. The fixed cost are the management and warehouse support necessary to do the job. The costing was done on a full absorption basis which showed higher profitability as higher levels. However the ops managers do not see any difficulties with this especially as they take the view that the fixed cost have to be managed and reduced. Thus in many ways the ops managers treat fixed costs as long term variable costs and full allocations is treating them as variable costs

· This shows the interplay of financing and operations. As the profitability was OK we will go with the proposals

Document '12~ SSS Ltd Group Commentary for Mar 04'

5. PC 20(B)

· Contribution for the month was £73k.

· This performance was in line with recent trading

· A small loss at Peterborough was recorded which reflects costs incurred as part of a development in partnership with PC 20(B) for a new method of trading direct form their main central warehouse

Document '13 Diary~Apr~04

Spent time redoing the PC 20(B) flash to incorporate the new contract. This is evidence of iterative planning trying to change the broad overall plan to specific targets

Had informal review with JC and PY on the PC 20(B). Reviewed costing and identified that best method of doing the costing is on a contribution basis. The client wants a price based on a full absorption basis e.g. £38 per drop with us taking the risk on the make up. The only way to do it is to assume that all cost are variable, or set them up so that they can be varied as the sale sales volumes change. See excel model of costing which was developed as a result of the ideas that came up in the meeting

Document '13~ SSS Ltd Group Commentary for Apr 04

5. PC 20(B)

· Contribution for the month was £95k, in line with recent trading.

· Small losses continue at Peterborough reflecting start up costs for the new method of trading direct from the main central warehouse

Document '13~ Target issues

· Need to sort out PC 20(B) Croyden costs

Document '13~SSS Commentary Mar 2005 working budget

5. PC 20(B)

· Contribution for the year is projected at 648k vs. £436k for the current year.

A-1 PC20(b)

· This reflects a reduction in recent levels of profitability, as contribution levels were much stronger in the second half of the previous year
· Contribution for the current year is projected to reduce from current levels as a result of the planned changes to the service provided. The service is planned to be based from the central warehouse, not the stores as presently. The precise financial impact will become clearer as this change over evolves

Document '14 HLG Board May04

3.4. PC 20(B)
· The outlook for PC 20(B) was unclear as the customer appeared to be in a state of flux and change concerning the development of their new systems and the implementation of their planned changes.
· However the agreement to provide the distribution of goods direct to customer homes in the south from the warehouse at Peterborough seemed to be stable, although the timing and precise method of implementation was not clear.
· The contracts to distribute direct from the Croydon and Bristol store were under negotiation to be resolved over the coming weeks.
· As a result of these changes the outlook for future profitability was not clear, although it was hoped that the increased volumes delivered directly from Peterborough would compensate for any loss of revenue resulting from the changes.

Document '14 SSS Board May04

4.3. The new contract with PC 20(B) for distribution from the central warehouse direct to consumers' homes was not being implemented as initially planned due to changes in the customer's requirement and delays in the systems development. However there continued to be a close working relationship with PC 20(B) and at this stage it did not seem that the commercial outcomes would be significantly affected.

Document '14~ SSS Ltd Group Commentary for May 04

5. PC 20(B)
· Contribution for the month was £55k, down from the previous month reflecting a four week trading period and increased set up costs at Peterborough
· It is likely that profitability levels will continue to be lower from Q2 onwards as the new trading terms are unlikely to be as profitably as current terms

Document '15 Diary~June~04

Reviewed the commercial situation. Normal levels of threats and opportunities the principal issue relates to PC 20(B) and its new contract. They seem unclear on the nature of the service required i.e. can we know what to deliver from Pborugh or do we have to draw from stock at a distribution centre. This has a major impact on our costs, and therefore we have to agree a contract which allows the cost to be adjusted to the changes in demand.

PC 20(B) is going through a complex stage as we are moving the working for the warehouse division and away from the stores and it is not clear at the moment the precise service we will be offering. We are moving to open book, and we have to show that the price per drop is £49 as that is what PC 20(B) think it is so we will have to produce some number to show that it is £49. This will no double depend on how we allocate the costs, which shows a different purpose to costing negotiation with customers

Document '15~ SSS Ltd Group Commentary for Jun 04

5. PC 20(B)
· Contribution for the month was £96k, a strong performance on the basis of high sales levels
· From Quarter 2 the operational nature of the contract will change, with the focus moving to distribution direct from the warehouse to the customers, and not from the stores to the customers. This is a new operational method for the customer, and the precise financial and operational terms have yet to be finalised. It is likely that profitability in quarter 2 will be significantly lower through the transition phase, although it is anticipated that it will increase from the third quarter onwards in response to the high volumes in the run up to Christmas, and the settling down of the operational methods

APPENDIX PROJECT 3 (P3)

A-1 PC20(b)

Document '16 Diary July~04

Finalised Q2 plan …………… The main area of uncertainty is PC 20(B) which shows a dip as the way forward is not clear.

3. Downside plan to March 2005. From the most recent weekly figures we seem to be getting recurring problems at Bratrim transport, PC 28 (A) transport and PC 20(B), so I have tried to get a feel for what happens if the current run rate continues

The situation was more difficult at PC 20(B) for two reasons. Firstly the nature of the contract was changing to move to the deliveries direct from the warehouse, and secondly the Director PY was under suspension and it appeared he had not kept control over the changes in operations, and that there was no financial plan that effectively showed the financial implications of the changes. Further the charging mechanism were unclear, with the prices provisionally agreed being subject to negotiation as PC 20(B) had not undertaken the changes they had committed to.

Arising form the concern for PC 20(B) I obtained the latest costing that had been done by the projects department and did the following work as summarised in the email to Chris Baker

Chris,
I attach my reanalyses of your file which converts the flash costs to the open book figures we give to PC 20(B).
By looking at it by depot and by product type we can work out of the cost per drop per depot which is very important as we have to compare the actual cost with the costs we quoted to PC 20(B).
Dean has a breakdown of the cost we quoted to PC 20(B) and we need to do an analyse of the actual cost versus this so that we can identify what the causes of the variances are and if we can do anything about them.
I am at Sutton tomorrow so will contact will get in touch with you when I get there as I would like to go through the number with Dean and you so we are all working on the same basis
See you tomorrow, Philip

Doing lots of work trying to tie in the quote that we had done to PC 20(B) with the flash as the flash has shown profitability reduced by around £20k since we have moved to a different charging structure and are not doing the work for Croydon

Most of the day at Brum doing the PY disciplinary hearing. However also had a session with RW and CB when went through the PC 20(B) flash accounts and their costings. From that agreed that the flash should be reanalysed so that the cost were analysed in line with the open book format that they has so that it could be reconciled to the budgeted costs that were being negotiated with them. It was also agreed that the cost centres for PC 20(B) Bristol and Croydon were now complicated as they effectively contained two profit centres deliveries from store and deliveries on behalf of the warehouses. Matters were complicated as they used the same vehicles to diver for both but for different PC 20(b) customers. Agreed that in future to produce the consolidated figures for the flash, but to produce in a separate file an analysis of the differing cost centre make ups. The cost could then be compared to the budgeted cost and prices which were being negotiated with PC 20(B) so that variances could be identified and the reasons assessed - broadly because of operational methods, or because the PC 20(B) profile was different to the one on which the contract was costed. Left CB with the understanding that he would sort this and the revised layout would be shown in the next flash

Reviewed this with JC on the phone. He had visited Croydon and had concluded that the contract was operationally OK, but that it needed managerial guidance which had not been provided by JC. The overall plan was then for JC to initiate operational action on delivery route etc, to collect all the operational data to check that the profile e.g. weights and size of drops were in line with PC 20(B) specification and then to validate these financially through the flash and with variances analyses against the plan make up.

I am stressing how important this is because the flash figures have reduced by £20k as PC 20(B) has moved from profits of £15k a week on the previous contracts to uncertain figures which may range between £7k profit to £7k loss but are not certain as the pricing has not yet been agreed

Document '16 HLG Board July04

A-1 PC20(b)

3.4. PC 20(B). The medium term outlook for the division was reviewed and discussed. During the suspension of Paul Young it was agreed that Dean Partington would take primary responsibility for the management of the division, with operational support as necessary from RW and JC. It was noted that the distribution contract from the Croydon store was ending by the end of June, and that the operational and contractual arrangements for the new contract distributing direct from the central warehouse throughout the South of England was still in the process of being finalised. A major factor in the delay in finalisation was that the PC 20(B) requirements seemed to be in a state of flux. It was agreed that while the expectation was that the overall level of performance of the PC 20(B) contract would in the medium term be in line with recent performance, it was accepted that in the short term performance was likely to be at a lower level while the new arrangements were being finalised and before the increased volumes in the run up to Christmas took effect

Document '16~ SSS Ltd Group Commentary for Jul 04

5. PC 20(B)

· Reported loss for the month was negative £31k.

· As reported last month the operational nature of the contract changed significantly at the start of Quarter2, with two separate services now being provided distribution from the Bristol store, and distribution from a central warehouse direct to the customers independently of the store

· Commercial and operational terms have not been agreed for the direct from warehouse operation and are still under negotiation. The reported losses have been caused as the operational requirements of the contract are more onerous and therefore costly than the basis on which the initial tender was made. Negotiations are therefore underway to either reduce the cost of the service provided or increase the price to be charged. As these negotiations have not been agreed sales are shown at the price tendered, but with higher costs incurred leading to the reported loss

Document '17 Diary August~04

Finished the monthly accounts and drafted the commentary………. In the commentary concluded that the main are of problem is PC 20(B) where the outlook is not clear, but hopefully we will be able to manage out target profit levels e.g. 10%

Phone call with JC at 9.30 am highlighting that not clear the situation at PC 20(B), and that profitability may collapse but not sure why as PY seems not to have made an constructive plans to change the method of operation to fit in with the warehouse direct contract, or make arrangements for the losses of Croydon.

Spent the morning trying to sort out the underlying profitability at the current PC 20(B) and identifying our planned level of costs. For PC 20(b) this is of key importance as the way the negotiation work is based on open book it therefore key to demonstrate where the costs are being incurred to negotiate a reasonable price- they accept that we need to make 10% on sales. This took some time and as had meeting with JC at 2.30 only able to do an analysis of the Bristol store

Meeting with JC 2.30 pm. Spent much of the time reviewing PC 20(B). After much discussion became clear that six separate profit centre 2 each at Pborough, Croyden and Bristol and needed to get plan of what we are aiming at and actual of what we are doing before we can negotiate correctly. Agreed that I would do this and review with CB and JC on Wednesday. When we have a plan of what our financial position is and is intended to be can then review the operations to assess whether the plans are achievable and negotiate with PC 20(B) to agree the commercial terms

Spent all day on reanalysis of PC 20(B) results as per the flash against my interpretation of HLG budget for new CD contract, and the latest available analysis for HDS.

We had not been able to make sense of the information as the figures had been over aggregated so that it was not possible to see the link back to the operational activities that drive the costs e.g. the number of vehicles, or the number of hours that need to be done to drives the trucks to deliver in Bristol vs. the plan of the number of hours on which the cost had been based. It was necessary to disaggregate out the HDS form the CD and then reanalyse the cost both to fit the PC 20(B) budget format and the HLG costing format. The overall conclusion is that the number have to be aggregated in a manner where they are grouped in line with the underlying activities and that the actual costs can then be compared to the intended costs. I intend to do this tomorrow at a meeting with CB and JC and try and set up rolling reporting of actual vs. intended. We can then investigate how the work is done operationally to identify if either we can do it more effectively and thus bring costs done to intention, or we can demonstrate that the costs are endemic because of the way the goods are represented to us by PC 20(B) so we are unable to do it more effectively and therefore they

A-1 PC20(b)

will have to pay. The exercise I did seems very parallel to the Wedgwood case filling the costs to the flow of the underlying activities, which is not the method of aggregating whether for financial reporting or for how the customer want the figures recording for their open book policy

Wednesday, 11 August 2004 - Meeting with JC and later CB mainly focuses on PC 20(B). Explained my analysis showing how the profit have moved down £20k in 3 weeks as the HDS at Croydon drops off. From analysis of the numbers agreed that the operational position became clearer and by drilling down from the numbers to the operational realties.

For CD the analysis showed that the costs per drop were around £50 on average against the intention of around £35 per drop. This was made up of three reasons. Firstly we needed a warehouse to sort out the goods rather than have them sorted out at the central warehouse and then direct to the customer. This requires another net 17 people including warehouse staff, management and call centre to deal with a higher level of queries, as the drops cannot be cleanly prebooked. This adds around £5 per drop. Secondly a warehouse is required with space and running costs which cause another £5 per drop. The third issue is that it appears that the transport drop rate is not within target which mans the target cost for transport is around £5 too much

The agreed solution is to try and negotiate the extra £10k relating the warehouse variance from PC 20(B) as their failure to arrange for order picking at Pterborough has caused the problem. The transport problem may be caused by our own inefficiency or a differing profile from PC 20(B). The key drivers of the efficiency are the number of minutes between drops and the miles travelled. It was agreed that we therefore needs KPIs of hours worked, drops made and miles travelled to see if the operational actions fit the plan. These should then flow through into financial results. The solution will be to set up systems monitoring both the operational indicators miles, hours and the financial indicators flash on a week by week basis and ensure that the results are aligned

Then review PC 20(B) with DP and JC. I explained how important to pull out for PC 20(B) the six different profit centres two ach at Bristol, Croydon and Peterborough and how each had differing drivers. In discussion we agreed that necessary to agree on the numbers and the cost allocation for each profit centre. Two things can then be done with these Firstly DP can then chaise how to present them to negotiate the best deal, and secondly we can them use the figures if produced weekly to monitor performance. DP made the strong point that as the commercial negotiator what he wanted was number produced that he could understand and negotiate with. The key was to produce number that were treated as correct by all (perception the most important), and reflected his understanding of the operational realties. For both the warehouse direct (CD) and sort deliveries (HDS) we had quote price base on operational solutions, which were not being implement din practice, because the flow of goods provided by PC 20(B) did not meet these plan. The jobs were therefore more complex than we had planned, but we were trying to do with the planned levels of infrastructure, which was causing a problem. The solution is to agree commercial solutions that reflect the actual not planned reality.

Got the flash through which showed a £3k profit. The reasons for the losses are £15k variance at PC 20(B),…….. The PC 20(B) loss is because the sales price has not been agreed and £49 has been put in as the lowest figure that it is likely to be. However following the review on Monday, DP is putting together an argument that the price should be £59 based as a result of the operational methods differing from intention as a result of PC 20(B) actions, and the profile to which we are working being wrong. There is a chance that this will overcome that problem.

Document '17~ SSS Ltd Group Commentary for Aug 04

5. PC 20(B)

· Reported loss for the month was negative £5k an improvement on the last month performance of negative £31k.

· Trading at Peterborough and Croydon, which are in the process of being merged into one operation providing the direct from warehouse service, showed significant losses. However recently good progress has been achieved in moving both operational and commercial performance towards intended levels.

Document '18 Diary September~04

A-1 PC20(b)

Got copy of the flash and went through the key issue with JC and apparent that major profit problem is PC 20(B) CD. PC 20(B) CD is showing a loss as the costs are higher as we argue the profile is wrong. However trying to negotiate an increase in the price to reflect the difficulty.

Got the flash which showed a £3k loss caused by both poor performance PC 20(B) and poor trading because of the 4 day bank holiday, also with the downside of holidays.

Then had meeting with JC and approved management accounts and reviewed the margin analysis. Agreed that this was beneficial reflecting the 11% margins less 6% to give 5%. From this clear that problems to be sorted are with PC 20(B), ………PC 28 (A) and Anatalis all of which seem to be caused by management problem specifically with PW and PY.

Discussed the issue at PC 20(B) and agreed that one of the problems was that the flash information did not reflect the operational reality. This has now settled to store delivery at Bristol and direct from warehouse for the South.

The second work undertaken was a reanalysis of The PC 20(B) flash P+L. Currently as well as not reflecting the operational reality the layout is as per the reporting requirements for PC 20(B) on open book, not the commercial structure by cost centres such as transport and warehousing etc. Did a comprehensive reanalysis which I felt reflected the operational realities. Discussed this approach with JC and agreed that we would review this with RW and Cb who were doing a parallel operational driven review of operations, with the goal of agreeing a price that could be agreed with PC 20(B). Currently for the direct form warehouse there are three prices. The £38 target of PC 20(b), the £49 that they have agreed as they appreciate that as their internal order management cannot deliver orders to be delivered direct form the PB warehouse, and the £60 that it is costing. The exercise that RW was doping was to assess whether the £60 was because of our operational inefficiency or because of operational requirements

Tuesday, 14 September 2004 - 12.00 am. Meeting with JC, RW and CB to review PC 20(B). I presented the layout and my analysis form that the costs were reducing and that split by the two profit centres that operational structure was relatively clear not the apparent jumble that had been reflected by the previous method of reporting. The analysis was very quickly agreed ands seemed to reflect the nature the operational analysis being undertaken by RW. It was greed that RW establish a price and a reason for that price to agree with PC 20(b) which is based on the preagreed formula of cost + 10%, and that the flash be used to assess the performance of this operational structure.

Also discussed the operational status of PC 20(b) which RW has stated is difficult. Agreed that presently PC 20(b) not pleased and that as resource were stretched or not available there was a risk that could not achieve operational performance levels which would invalidate the financial plans as the contracts could be lost. Agreed that the approach was to sort the operational issues ASAP, set a structure that reflected into eh financial analysis and prices had the potential to be profitable and manage the implementation of this plan

Then updated the PC 20(B) flash for the changed analysis format agreed

By phone discussed with JC both PC 28 (a) and PC 20(B) negotiations. RW had repriced the PC 20(B) direct from warehouse system and had got the price to £52.50 only £2.50 more than the current agreed price, Had had meeting with PC20 where he demonstrated how the price had been calculated and apparently got informal agreement subject to main management agreement

PC 20(B) CD. RW seems to be sorting the problems, but PC 20(B) have been complaining, the extra increase of £2.50 has not been agreed, and the systems going forward from Jan 2005 has not been agreed. RW has meeting on Wed 29 Sep which will hopefully resolve

On top of this is the requirement to sort PC 20(B) it seem the store is now Ok but the CD still needs working on plus sort out the problems at Midland and transfer to Gary. The issue is can this be done at the same time as the deal. Agreed that would keep under review and make a decision by this time next week.

Got the flash – another problem with £2k loss. Review seems to suggest problems are widening. Review cumulative of performance is as follows with c £300k variance from plan…….**Core problem to sort…………**

PC 20(b)	(156,509)	Terms being negotiated

A-1 PC20(b)

Spent all day doing Q3 forecasts. ………the analysis showed that very small improvements make a big difference to the P+L. This is summarised in the following word analysis……….PC 20(b) Croydon – (target) efficiency savings of £5000

Document '19 Diary October~04

Change over to new CD contract badly disrupted by HLG management problems (PY) and PC 20(B) operational difficulties. HLG new management structure now in place, and commercial and operational issues being addressed. Potential to re-establish long term relationship now recreated, but outcome will not be clear until January

Major issues affecting profitability are………PC 20(B) management problems - £5k. Actions plans in place to address these, with positive indications in current week, but full benefits will take up to 8 weeks to flow through.

Had a general discussion with JC of strategy. A major negative issue of PC 20(B) is the amount of senior management time that is involved. The problem is that the 6% central costs get absorbed in response to pressures, and cannot be future planned as the issue do not become apparent until they occur however it is becoming apparent that a trend of PC 20(B) taking up excess amount of time, so that is suggesting that strategically we should not be involved.

Document '19~ SSS Ltd Group Commentary for Oct04

· Negotiations continue with PC 20(B) to either set the contract on stable commercial basis, or withdraw, but progress is being hindered by difficulties in getting clear decisions from the complex multi level management structure at PC 20(B).

Document '20 Diary November~04

Initially reviewed the plan I had done projecting forward to March 2006…….we are agreed that likely that PC 20(B) is too different and absorbs too much central management time, and that better to focus on our area of expertise.

Monday, 08 November 2004 - Got the flash figures. They show an improvement except PC 20(B) and the furniture which remain the problem areas. Meeting with RW,DP,JC to review PC 20(B). The thrust of the meeting was to ensure that we clearly new what the contract was so that we could then put together both a financial budget, and an operational procedure that reflected this budget. Following a long detailed discussion agreed a plan of action and approach that should enable this to occur a summarised by the following minutes

CD
1) Ensure payment are received upto date
2) Review contract for termination provisions and charging mechanism
3) Re-price contract on the basis of actual cost levels and procedures and calculate price that will give a 15% margin at projected levels in the new year
4) Present to PC 20(B) the following options
· Accept new prices
· Accept termination and agree work out programme

Tuesday, 16 November 2004 - PC 20(B). Had been emailed RW projections for Q4 which I analysed. Initial conclusion that Croydon - 8% margin is low and the risk high given the high level of sales and the possibility of damage claim etc. £3.5 extra brings the margin up to 14%

Discussed with JC on the phone. For Cd the decision is not so clear. JC arguing that £6k is good enough my fear is that at 8 % the risks are high if the efficiencies are out only a small amount or there are some high damage related costs

Overall agreed that the position was becoming clearer each time we review the position, and therefore we can defer the decision, especially as we are on 3 months notice for PC 20(B) CD so we in effect have an option to get out, although the cost of the option is the lack of security, although compensated by us having all the trucks etc on short term rent

Wednesday, 17 November 2004

A-1 PC20(b)

Also RW had produced a budget showing £6k pw at CD although he did seemed to suggest that had some padding in it. Agreed that we are now getting clearer on the commercial element of the contract and the financial and the way forward is to keep negotiating with PC 20(B), keep chasing the invoices to sort out through what they pay what they agree, and to keep monitoring the actual performance though the flash

Thursday, 18 November 2004
Phone call with JC re PC 20(b) meeting. Seemed that not clear what the outcome is PC 20(B) are said to be looking for new quotes, but are looking into paying the accounts. Agreed that can just keep pressing on to reduce costs, chase invoices and push to stabilise agreements

Had brief review with JC on commercial issues. Our main focus continues to be PC 20(b) and sorting out the commercial position so that we can have some certainty of the current position and the way forward

Document '20 Plan~2~November 2004

1) Get out of PC 20(B) as it absorbs too much management time for marginal profitability
2) Use spare senior management from PC 20(B) withdrawal to provide support to increase profit by
· Profit improvement in existing business
· New business

Document '20 HLG Board Nov04

· The outlook for PC 20(B) was less positive. It was proving difficult to establish stable performance levels both financially and operationally as a result of internal changes within PC 20(B), and the difficulties inherent in dealing directly with the consumer. Furthermore the contracts were absorbing excessive levels of senior management resource.

.2. The following actions were agreed
· Unless trading at PC 20(B) can be stabilised by the end of November both operationally and financially, with a minimal future level of senior management involvement, the contracts should be terminated as soon as is feasible.

Document '20~ SSS Ltd Group Commentary for Nov 04

· The results were specifically affected by the significantly improved performance at PC 20(B) where a stable commercial trading base appears to have been agreed, although at this stage the position is still potentially volatile given the complex and ever changing decisions processes at PC 20(B).

Document '21 Diary~December~04.

Then had meeting with JC. He reported that meeting with PC 20(B) seemed to go OK and that in principle they may have agreed to pay the prices accept that the Vat was a misunderstanding n both sides. We will see if they actually pay the account which is the key factor. Also said that as currently at 7%% of volumes there is a potential for extra for us of may be £10k per week.

Wednesday, 15 December 2004. Meeting with JC and RW (part) for review of where we are and PC 20(B). Reviewed the new tender that PC 20(B) have put out for the CD. JC had been to a presentation and they are looking for one carrier to do all the CD estimated value of around £10m. JC stated that focus is on price, with ser ice backed up by very high KPIs that they link to achieving profitability. This is to be policed by a bastardised Balance Scorecard which is effectively a list of the KPIs that they want to ensure are achieved. On reviews we felt that probably not for us, but Bibby are keen so we will do a joint quotes with Bibby for us doing the South and them the North. I said I was very uncertain, as dealing with retailers is dangerous as they bully you, but we can do a quote for the South, as that is in lone with what we are doing already. There is a big danger that we will spend too much time on PC 20(B), and not focus on the areas that providing the profitability

Reviewed the flash which has moved into target territory. It has been improved because PC 20(B) CD is only 75% of target volumes so we get an increase to cover extras

Document '21~ SSS Ltd Group Commentary for Dec 04

A-1 PC20(b)

· PC 20(B) also recorded as strong performance following the release of earlier provisions as previously disputed sales invoices were paid.

Document '22 Diary~January~05

Reviewed flash. While £48k variance from plan, this was mainly caused ……… and no equalisation charge for PC 20(B) which dropped a further £20k. Concluded that does not give an idea of the run rate which is to be assessed next week.

Then reviewed the new PC 20(B) CD quote. Russel and Chris baker had produced this and they produced a pricing based on both the flash analysis and the format required by the customer, with the cost based on our actual experience. The quote seemed logical and fitted in with both historical cost experience and the pricing requirement of the customer. We concluded that it provided a good basis for going forward. I concluded that it reflected well the approach e is trying to achieve. Firstly provide a quote based on given information which show how costs and incomes and projected profitability. Secondly build into other contract the key assumptions on which the costs, income and service levels are made. Thirdly convert this into an anticipated run rat of profitability, which provides the financial benchmark against which performance can be assessed. The weekly figure then give the feedback against this which if they are a significant variance allow either extra costs to be charged because the data provide by the customer I not in line with actual, which should be covered by ratchets in the contract, or ells revisit how the work is done operationally. This provided the key feedback-learning loop and allows for both the contract the terms of the contract to be adjusted in line with changing events, or the operational implementation. The key however is that while the terms and operations flex, the financial requirements i.e. a10% margin remains a constant. So the overall financial objectives remain a constant, but how it is achieved changes. This is consistent as there are many potentially differing ways of achieving a 10% margin, but in effect this 10% margin is driven by market demands, which are themselves the outcome of the invisible had which tens to lead to market prices i.e. what can be produced that gives an acceptable return. This method of thought leads accounting very much into the realms of economic, in that the process are decided by economic consideration, by at the key for management is to ensure that the operational terms fit in with the overall economic pressures.

Got the projected figures from PC 20(B) which showed only marginal profitability as they are based on 85% of the projected volumes which is the level at which we are projected, but is also the level of lowest profitability.

JC came back from meeting with PC 20(B) to review quote for CD. Said that problems was that only quoting for the south, and Bibby quote for the North was not considered good. Rivals are Hays and excel who will do it all.

Reviewed flash See attached together with comparison v 2004. Points
1. £9k of £16k of variance is PC 35 and PC 20(B), and the other £7k is Edinbridge, Dreams and Arla
2. PC 20(B) is currently £16k down on sales budget and £11k for the week - presumably this is below the 85%

Document '22 SSS Board Jan05

3.3. It was noted that there had been an unusually high degree of activity relating to contract renewals………. These related to a variety of factors including contracts nearing/reaching their termination dates (e.g. Fasson, Cedo, PC 20(B) CD)…………

Document '22~ SSS Ltd Group Commentary for Jan 05

· Again the negative impact of seasonal factors is reflected in the overall margin being down to 8.8% against 10.5% for YTD, with PC 20(B) specifically being adversely affected by seasonal factors.

Document '23 Diary February~05

Flash indicates profit of only £10k, but likely to be improved by retrospective at PC 20(B)

Document '24 Dairy March~05.

Discussion on phone with JC after he has come out of second PC 20(B) presentation he said that it had gone OK.

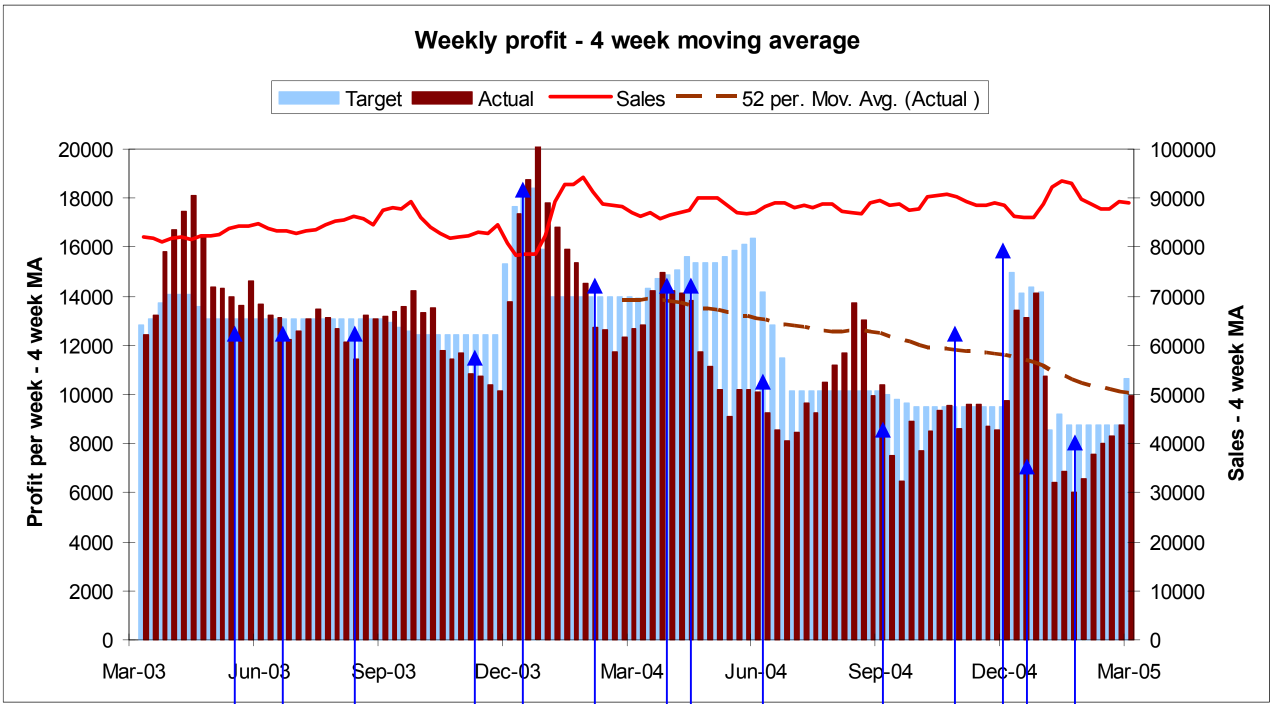
A-1 PC20(b)

The flash came though at a £10k profit, but made worse by a £5k loss at Furniture and £1k at CD, but this is likely to up by £9k through the influence of the minimum thus making £25k on a revised basis.

JC had had a call from PC 20(B) suggesting that we partner Excel, but with them controlling the planning, loading and call centre and us just providing the delivery. After discussion with Russel agreed that this was out of the question as effectively we would just be a delivery subcontractor to exel and would have no control over the job. We agreed that it would be better not to have the job. Jc made arrangement to go and discuss with them tomorrow, although this is likely to lead us to losing the job

A-2: PC35

SUMMARY	Wk cont	Margin	Var v Targ	Var v Mth
Mar-04	720,152	16.3%	(8,171)	(32,710)
Mar-05	519,882	11.3%	(79,517)	17,159



Date	Summary of Data
Apr/Jul 03	In line with expectation
Aug 03	High HLG subies costs – 'will this continue'
Sep 03	Further high HLG subies costs 'it has never been significant before'
Oct 03/ Dec 03	Operational issue following changes in customer management reporting lines and new system leas to scanning problems. Leads to increased staff agency costs to overcome problems. Aim is to resolve problems
Jan 04	Seasonal profit uplift
Feb/Mar 04	Assessed as operating below trend due to continued scanning problems – however management changes being introduced to resolve problems 'management on the case'
April 04	Full financial review concluded that all key issue had been identified, new management installed and appropriate remedial actions agreed linked to financial targets
May 04	Profit assessed as being hit by 'costs up across the board'
July 04	Continuing variance leads to further reassessment. Conclude that there is an underlying change in the operational nature of the contract (see July 04 diary leading to a fundamental change to profitability. Conclude that need a rethink in the operational structure and try and get agreed in new contract.. Existing contract terminates in Dec 2005
Sep 04	– Putting together new operational procedures based on roller cages to meet customer requirements and overcome operational issues – Financial figures continue to worsen as the operational problems are not addressed, as the solution is the new roller cage operational procedures
Oct 04	Introduced specific maximum cost spend targets to try and maintain profitability as best as is possible pending introduction on new operational system. Conclude that on a rolling basis stabilises performance
Dec 04	Seasonal good performance, but lower level than previous year
Jan 05	Use PC 35 financial structure to provide benchmark for other automotive quotes
Feb 05	Further down turn assessed as too much focus on new procedures rather than current operations. Re-establish short term controls

A-2: PC35

DOCUMENTARY DATA – RELEVANT EXTRACTS

Document '03~ Aarco Group Commentary for June 03

· PC 35 continued to trade profitably in line with expectations, as did the other small profit centres.

Document '04 SSS Board July03.

2.2. The overall current performance and outlook was agreed as positive and encouraging. The majority of profit centres and customers such as PC 35, Fasson, Arla, Suzuki, PC 28 (a) were performing well and in line with expectations

Document '04~ SSS Ltd Group Commentary for Jul 03

· PC 35 continued to trade profitably in line with expectations, as generally did the other small profit centres.

Document '05 Dairy- August~03

· PC 35. The Midland GM who was the ex manager of PC 35 has been head hunted by the Japanese subsidiary who are chasing the PC 35 business. This make JC keen to try and gain the Irish business almost regardless of margin to maintain our grip on the UK and Ireland PC 35 business which will be under threat from this company when the contract comes up in two years time

5. PC 35 has £2.1k of HLG subies costs - will this continue.

Document '05~ SSS Ltd Group Commentary for Aug 03

· The two IKEA accounts and PC 35 traded in line with trend and expectations as their trading profile is not adversely affected by holiday factors.

Document '06 Diary~ September~03

· PC 28 (A), PV10k, new PC 35 Ireland potential contract reviewed all have been produced from extrapolation of the profiles given to us costed out by our historic knowledge of the costs of providing the services

· The quote for PC 35 Ireland has gone in we have priced this competitively as we are very keen to get the work to protect our position as a major PC 35 supplier

6. PC 35. Should improve profitability as holiday season ends and extra subies drop off

Document '06 Relevant emails Sep 03.

2. PC 35. Over £4k of HLG subies - why suddenly so much. Now has cost £13k over the past five weeks - it has never been a significant cost before.

Document '07 Diary~October~03

Phone calls JC/ML . Had arranged top meet at 3.00 pm to discuss and agree the Q3 and Q2 figures. JC rang to say that had teething operational problems at both PC 28 (A) and PC 35 following the introduction of a new system. Agreed to put the meeting off to Friday so that he could ensure that the operational problems were sorted. We both agreed that the relationship of the number to the ops was that it is necessary to get the ops sorted, and then to review the implications of the ops for the numbers to assess if further changes need to be made to bring the numbers back onto line. It I a constant rolling relationship of refreshing the number for the implications of the os, assessing if that meets requirement and if not instigating changes that bring it back on line. For this to happen essential to have a roll out of the projected outcomes of the operational actions agreed.

Document '07 HLG Board – Oct 03.

PC 35 was being de-stabilised by the move to European management and change in relationships and system.

A-2: PC35

· The agreed approach was - Build as far as possible relationships with new PC 35 management

Document '07 SSS Board Oct03

management changes at other major customer such as PC 35 and Arla had worsened the trading environment.

Document '09 Diary~December~03

· PC 35. Get scanning 100%, reduce agency and non chargeable subie

Document '09~ SSS Ltd Group Commentary for Dec 03

· Contribution for the month was weak at £20k as a consequence of the Xmas effect apart from PC 35 which benefits from fixed sales.

Document '10~ SSS Ltd Group Commentary for Jan 04

2. Automotive

· The division is now focussed on automotive customers. The contracts for two remaining non automotive customers PFL and Steelcase cease during this quarter

Document '11 Dairy~Feb~04

Agreed that PC 35 was trading under potential but that the new management changes should enable the scanning to be implemented and, efficiencies improved and therefore profitability increased. Evidence of operational actions leading to increased profitability with variance identified by the accounts

Document '11 HLG Board Feb04

· The main opportunity is to increase profitability at PC 35 which has slipped particularly as a result of operational difficulties relating to the completeness of scanning. The potential over the medium term is to both strengthen our position with the customer though tightened service levels and increase profitability as consequence of the rising efficiency.

Document '12 Diary~Mar~04

have copied you in on AF memo re PC 35 P&L, he seems to be on the case.

Document '13 Diary~Apr~04

PC 35. Did full review of the cost structure and for the first time for some time all concluded that key areas had been identified. New manager is more experienced than the previous managers and has the potential to reduce costs

- Extra sales HLF fleet. The make up of this broken down and identified as being either fixed or linked to additional cost
- HLG subies cost not recharged. This has been running at up to £4k a week and agreed that key focus of action to reduce as mainly covering operational. Agree budget of £2k pw reusing to £1k
- Fleet make up. Currently £2k a week on extras over and above core fleet. Agree should reduce by £600.

Monday, 26 April 2004 - Received reassessment of PC 35 from Andy. Showed that in going though the detail he understood the link. The key seems to have the information in real time and in a format that the ops managers can closely link finance to operations

Document '13~ SSS Ltd Group Commentary for Apr 04

· All contracts performed in line with expectation

A-2: PC35

Document '14 Diary~ May~04

Got flash though and did analysis. Mainly in line with trend except PC 35 and PC6. PC 35 costs seem up across the board.

Document '14 HLG Board May04

· The main focus was to develop improved methods of operation at PC 35.

Document '14~ SSS Ltd Group Commentary for May 04

· All contracts performed in line with expectation

Document '15~ SSS Ltd Group Commentary for Jun 04

2. Automotive - All contracts performed in line with expectation

Document '16 Diary July~04

1.00 am meting with Andy Fenn for Q2 automotive targets. All except PC 35 in line. This is out of line superficially because of higher agency and own non chargeable couriers, which Andy is having difficulty in sorting. However on discussion of the reasons became apparent that the job that involves a lot of handballing off is not now popular and the tight labour market has led to difficulties in recruitment. Further the PC 35 garage base has changed to larger edge of town garages, where volumes are bigger. This means the competitive advantage of hand balling to small garages where roller cages cannot get is no longer relevant, and other companies have developed track and trace roller cages (i.e. containers) which is eliminating our competitive advantages. With the fleet getting older there are therefore strong pressures both reducing our competitive advantage and profit. Agreed that need to have a major rethink of the systems built around roller cages for delivery not handballing, and linking the tracking technology around this. This to be developed over the next nine months with the aim of getting an early extension at Xmas 12 months before the end of the contract.

However we are talking to other automotive customer and there is a potential to build up an integrated service for the division which would be very attractive

Document '16 HLG Board July04

3.1. Automotive. The medium term outlook for the division was reviewed and discussed. It was agreed that no major changes in operations were anticipated within the existing contract terms, except a potential opportunity to make changes to the current PC 35 operational method.

Document '16~ SSS Ltd Group Commentary for Jul 04

2. Automotive - All contracts performed in line with expectation

Document '17~ SSS Ltd Group Commentary for Aug 04

2. Automotive - All contracts performed in line with expectation and trend, as this division is not affected strongly by seasonal factors.

Document '18 Diary September~04

Tuesday, 21 September 2004

Had quote in from JC on the new PC 35 pricing. This is build up from an assessment of the routes required, then the times to cost of the labour and vehicles required to give cost with the price as a margin, with the aim to get it down to the price already charged including subies. The quote is for a new method involving roller cages and the aim is to increase efficiency and reduce damages so that abetter service can be provided at the same price. JC is presenting informally to PC 35 at Lutterworth on Wed and then formally to main /PC 35 management in Belgium on Thursday

A-2: PC35

Received flash which showed poor result of £5k as a result of PC35 at break even. Did full variance review see excel file and summarised the situation to JC by email as follows
2. Clearly the PC 35 results make a mess of the figures - is it blip, trend or wrong ?. What is the realistic outlook for Q3

PC 35 and automotive divisions. JC trying to renegotiate a new deal which look optimistic if sorted, but currently the outlook is not known

3. Most important we reviewed PC 35. It seems that since the transfer to Belgium three factors adversely affect the operation. There are three issue.1. The fleet is old and falling apart. 2. We do not deal directly through the garages which mean our flexibility is greatly reduced. 3. The job is difficult at night hand balling car part. The shortage of labour makes it difficult to recruit. This may well be overcome with the roller cage solution, but this will take to sort and require big JC input. This will be difficult if involved in the deal.

Got the flash – another problem with £2k loss. Review seems to suggest problems are widening. Review of (cum 3 month) performance is as follows with c £300k variance from plan
New Problems
PC 35 (8,192) Agency/HLG subies both up

- Email summarising changes to be made to first draft of quarterly target, which was based on extrapolation of previous quarter results
PC 35 Keep HLG cost subies to £3400

Document '19 Diary October~04

· PC 35 - - salea£4.4m
- Mixture of aging fleet, no close contact with garages, difficult recruitment market has harmed profitability and efficiency
- New operational proposals have been made which will overcome these issues and potentially lead to contract extension
- Initial customer response positive, but negotiations unlikely to be completed until January, including potential of further work from Honda and Fiat

· Major issues affecting profitability are
- PC 35 operational problems £5k

Friday, 08 October 2004. Following email show the type of short term cost control put in at PC 35 to try and bring back in line

'Can you give me some form of estimates for the agency bill and what you have spent on couriers that we cannot pass onto PC 35 this week.

Secondly as I mentioned yesterday we need to be more aware of the costs involved in using couriers and find out if there is a better way of sorting the issues out.

The spend on subbies and agency in the flash are shown below: -

	11-Sep	18-Sep	25-Sep	2-Oct
Cost to HLG	1,836	12,500	5,200	6,269
Agency costs	4,217	3,426	7,726	7,990

Basically anything over the budgeted figure for subbies and agency cuts the profit from the bottom line.

Ideally we should be spending significantly less than the budget

A-2: PC35

figures. I am aware that we have to bail ourselves out of the mire when a part gets miss routed, however I feel the easy option is to call in a courier when we need to deliver a whole route.

Please let me have you thoughts and ideas how we can reduce both bills to acceptable levels.

Regards, Andy'

PC 35. The key thing on this is to get the new contract agreed on the roller cages. The trial have started and so far so good. The strategy is to try and keep as near as possible to the £10k target until the new contract is agreed. The flash at £7.5k getting nearer target.

Document '20 Diary November~04

PC 35 Under Negotiation

Meeting with JC at PC 35. Reviewed the new IT systems for scanning the product, which hopefully will make the operation of the Job more effective, and will pave the way for the movement towards cages which in effect containerise the deliveries for each garage. All these action are undertaken to secure the long term viability of the contract.

This showed less of a variance, suggesting that some of the apparent variance on the week are blips e.g. PC 35 was £2.6k down on the week, but only £300 on the four week average.

Document '21~ SSS Ltd Group Commentary for Dec 04

· PC 35 recorded a contribution of £99k benefiting from seasonally good performance over Xmas as a result of the fixed income nature of the contract, and the release of earlier cost provisions

Document '22 Diary~January~05

Wednesday, 19 January 2005 - Did review of the automotive companies Fiat, Honda, PC 35, IM. Produced P+L showing how the quotes were made up converting the pricing model, which is based on costing of the resources required for the job into a flash type P+L. This showed how the cost structure of the business is similar. This then provides the basis for a budget against which financial performance can be reviewed.

Reviewed flash and assessed variances. Conclusion s per email to JC
See attached together with comparison v 2004. Points
1. £9k of £16k of variance is PC 35 and IKEA, and the other £7k is Edinbridge, Dreams and Arla

Document '22 SSS Board Jan05

3.3. It was noted that there had been an unusually high degree of activity relating to contract renewals. These related to a variety of factors including …….. proactive proposals for improvements (PC 35)

Document '23 Diary February~05

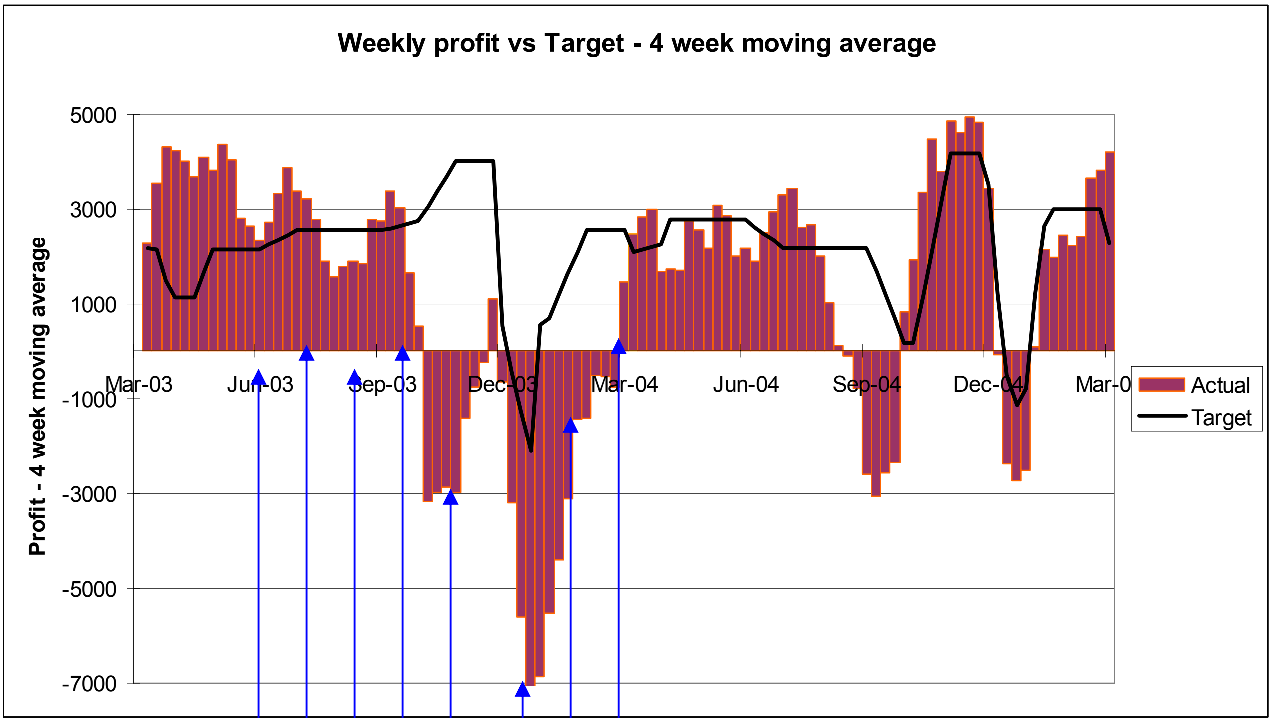
However still awaiting response from Fiat, PV10k Louth and Honda and PC 35 and IKEA are still subject to negotiation. However we also know we are losing Arla Stratford.

Wednesday, 23 February 2005. Got the flash though which showed a disappointing performance of £20, with £10k dependant on special from IKEA HDS. Following shows the major accounts that are varying from plan, and the principle questions raised. Will review with JC before Friday to assess the reasons
PC 35: (15,556) - Problems seem to be continual - mainly post van sales down, HLG subies up

Following flash JC had longer conference call to establish reason for profits down. Following are key conclusions of
- PC 35 needs more controls put on CM. Concentration on trials rather than cost control seems to be the issue.

A-3: PC28(a)

SUMMARY	Wk cont	Margin	Var v Targ	Var v Mth
Mar-04	36,134	2.2%	(101,281)	(19,567)
Mar-05	94,467	4.3%	(20,826)	(34,186)



Date	Summary of Data	Action/ Issues
Jun 03	PC 28 (a) contract under re-negotiation – assume lower profits until situation clarified	In line
Jul 03	New contract agreed in principle with PC 28 (A) who have purchased PC 28 (a). Detailed quotations developed using historical information of PC 28 (a) and comparisons with equivalent contracts	New contract in principle
Aug/Sep 03	Rolling negotiation of terms of contract as conditions are clarified with customer and resources are purchased, and terms to protect changes in profiles and volumes are negotiated. Three uses of financial information identified – Agree income / cost structure – Then monitor outcomes against actual – Use to negotiate improvements Overall profits of £7k pw are anticipated (350k pa), on sales of £3m	Negotiate detailed terms
Oct 03	– Much management time spent on setting up new contract and dealing with major teething problems, using the prepared downside positions to protect our financial exposure. – Part of the analysis of the teething problems informed by 'bottleneck' thinking in relation to the warehouse – Agree to sue flash to monitor outcomes – accept that short term over expenditure sorting initial problems	Teething problems
Nov 03	– Major £8k loss in first week stimulated immediate review – appears that assumptions on box sizes wrong and therefore calculation of how many can get onto truck. RICH example of relationship of MA and operational actions – Continual work on improving the planning to get process efficiencies	Initial review
Jan 04	Major crisis at warehouse leads to knock impact at transport. This together with Xmas close down leads to big losses. Again senior management committed to developed process improvements	Second phase major crisis
Feb 04	Improving trend as operational improvements are implemented	Operational improvement
March	Initial crisis overcome, issue identified and operational improvement made. Then open negotiation to address pricing issue that have emerged	Renegotiate terms.

A-3: PC28(a)

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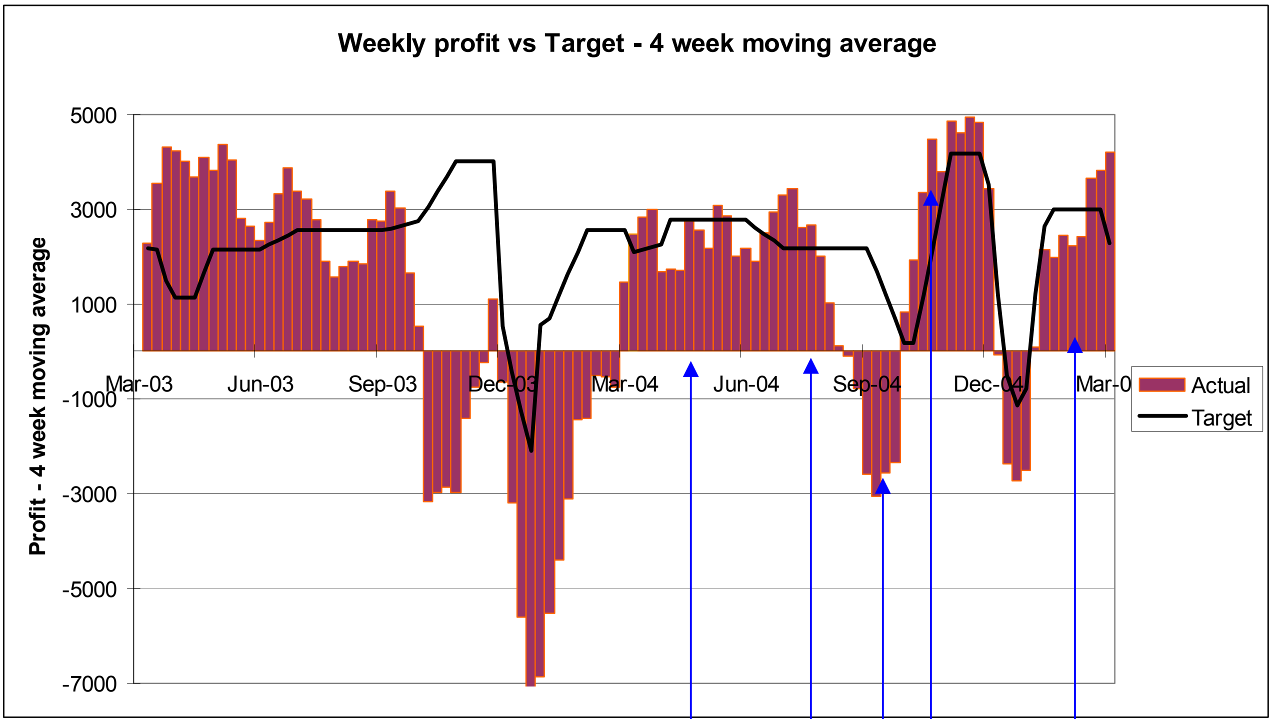

Date	Summary of Data	Action/ Issues
Apr/ Jun 04	Continued renegotiation of commercial terms. But operational improvement instigated by senior management troubleshooter flow through to improved profits. Hand back to local management	Renegotiations
Aug 04	Claim for reduction of £110k received from PC 28 (A) re earlier problems	
Sep 04	– Review concludes that weak management has led to loss of cost control and resultant losses relating to catch up of earlier over recorded sales / underecorded costs / disputes with customer – Agree in principle 5% increase and change management	Review and change management
Oct 04	Conclude that positive indication from remedial actions, but may take 8 weeks to flow through	
Nov/Mar 05	Performance now in line with target	In line

A-3: PC28(a)

DOCUMENTARY DATA – RELEVANT EXTRACTS

Document '01~ Target issues Apr 03

· Andy priorities
b) Love PC 28 (A) to get extension on PC 28 (a)

Document '03~ Aarco Group Commentary for June 03

· The forward projections reflect a continuation of this trend and level of profitability with the exception of PC 28 (a) and Steelcase. The PC 28 (a) contract is currently in the process of renegotiation, and lower future profits have been assumed until the situation is clarified

Document '04 Dairy July ~03

· Main discussion was on the PC 28 (A) quote which I had reviewed. Had been built up by AF from an assessment of the resources required to meet the demand i.e. from ops up.
· Main issues were if the actual profiles are not in line with customer projections. Agreed that when the contract is being negotiated protections and ratchets will be negotiated, but that best to do after letter of intent received and the customer is committed

· Developed further the analysis of PC 28 (A) profitability, and compared it to the current flash run rate of PC8, Warehouse 2 and PC16 for the warehouse. Showed that costs structure are similar and that optimistic as PC 28 (A) warehouse sales are £23k for similar costs of warehouse. This shows the benefit of using parallel type operations as providing a benchmark against which projections can be compared

Document '04 HLG Board Jul03

· The current contract with PC 28 (a) was coming to an end, but negotiations for a new contract with PC 28 (A), the new owners of PC 28 (a), had been agreed in principle to replace the PC 28 (a) income stream.
· A letter of intent had been agreed with PC 28 (A), and it is anticipated that this will commence at the start of September. Budgeted turnover is £3.9m for this mixed logistics and warehouse contract, with average levels of profitability

8.1. In conclusion it was agreed that the following were items for priority actions
· Finalise PC 28 (A) contract AF

Document '04 Relevant emails~ Jul~Aug03.

18/7

Good Afternoon Philip,

Please find attached a copy of the PC 28 (A) Letter of Intent document.

John has asked me for you comments on this document prior to me signing a copy and forwarding to PC 28 (A). Richard Forrester has approved the document except for point 6 (iii). Which we all believe is not an issue.

Would you please give me a call to discuss.

Kind regards

Andy Fenn
Divisional Director
Hammond Logistics Group Ltd

A-3: PC28(a)

Document '04 SSS Board July03

2.2. The overall current performance and outlook was agreed as positive and encouraging. The majority of profit centres and customers such as PC 35, Fasson, Arla, Suzuki, PC 28 (a) were performing well and in line with expectations

Document '04~ SSS Ltd Group Commentary for Jul 03

· The PC 28 (a) contract is currently in the process of renegotiation, and lower future profits have been assumed until the situation is clarified

Document '05 Dairy- August~03

PC 28 (A) meeting PS, JC, AF, CB, MJ

· Discussed in detail the PC 28 (A) contract. Started with long review from MJ about how to control goods inwards of key importance as how effectively this was done, and whether the warehouse we took over and the racking systems chosen was suitable had a big impact on profitability

· Then went on the assess profitability. They did their own analysis both consolidated and separate for both the warehouse and the transport see file for the details

· Warehouse is the most difficult as the need to take a warehouse at DRIFT has meant staff are difficult o get and therefore more expensive. Reviewed their cost assumptions and against Braitrim. They ad followed the flash and included some assumption based on the flash figures they were given e.g. training, phones, insurance without checking for the accurate figures as if give by accounts in the flash they must be right. I said to check out and put in the real figures and follow the new analysis of splitting warehouse direct costs form admin. Agreed overall, that the key however was to try and get a fixed income of £26k as the costs are committed when a 2 year deal is signed for the premises, but that overall profitability looked OK although dependant on staffing levels which were not certain until the operational effectiveness had been assessed

· Transport also reviewed and the margin seemed OK. Had worked out how many truck needed to move in accordance with the profile provided, which is based on historical performance of traffic management. £20k of extra sales which can be subbed provides some further bunce. Transport less of a worry as can get rid of the vehicles and there is an assumption of volumes in the contract if not met can get rid and the target profitability looks good

· Overall. Concluded that likely profitability was between £4k and £12k ,with £7.5k which is what their figure said as the most likely. Agreed that this was OK noted that did include cists of funding which as debts could rise to £1.1m could be aprox £50k, although reduced by creditors. As a side issue this will affect negatively our cash flow which can be interpreted as negative, although it should be positive as the invoice discounting facility gives an automatic means of funding

· Discussed PC 28 (A) contract. Apparently the DRIFT warehouse is not good as too far from manufacturing bases, but another has been identified at Mimworth. This has changed to costing on the which the contract gained, but has apparently been assessed as OK. This is an example of changes assumptions of cost in the I must to the model of income vs. expenditure which is basically the terms of assessment. It shows how even before set up information has to be continually reassessed as it changes and develops

· Discussed PC 28 (A) contract with AF. The figure show an intended profit of £4k for the transport and £2k for the warehouse. JC negotiated all Tuesday in Sweden to finalise. Main issue is that will not accept a minimum on the warehouse. Debated the risk reward ratio at length potential of £7k pw profit vs. danger of getting left with £7k week loss of empty warehouse if they did not meet the requirements. Decisions is a matter of judgement but informed by the financial information. Conclusion is that will try and get some if not limited protection on volume downsides to reduce the risk. Perception is our bargaining position is reasonable as they seem to have no other alternative in the wings

4. PC 28 (a) profits have dropped off seriously in the past two weeks - is this blip or trend

Document '06 Diary~ September~03

· PC 28 (A), PV10k, new PC 35 Ireland potential contract reviewed all have been produced from extrapolation of the profiles given to us costed out by our historic knowledge of the costs of providing the services

A-3: PC28(a)

Wednesday, 10 September 2003 - Phone discussion with JC re PC 28 (A). He is very worried that the current minimum for the warehouse of £15k does not cover the costs, and that the Swedes are being very uncertain about the volumes they can provide. If they do not provide the volumes the £15k is not enough to keep the warehouse going he therefore feels that we should go back and increase it to £20k. Agreed with him as the trade off is an uncertain income outside our control, vs. a certain cost. THIS IS SUGGESTING THREE MAJOR USES FOR INFORMATION

1. TO GET THE INCOME/ EXPENDITURE COST STRUCTURE AGREED
2. MONITORING PERFORMANCE TO SEE IF IN LINE WITH THE STUCTURE
3. PRESSING TO SEE IF CHANGES CAN BE MADE TO IMPROVE PERFORMANCE

Current Negotiations. PC 28 (A). This is proving difficult on the property size, as JC has reassessed the weekly core cost of the property to be about £20k per week. The client is unwilling to confirm volumes, and as it is doing a restructuring of manufacturing of a commodity product these may fluctuate. We agreed that after the problems with Braitrim we must insist on a minimum to cover the warehouse costs, or else the danger is on being locked into losses for a three year period the length of the lease. We are better to walk away then get bogged down in loss makers

· We have received a letter of intent from IM, which has come out the blue quickly. This make the position of PC 28 (A) easier to negotiate as this should provide an alternative stream

Thursday 11 September 2003 – meeting with JC………..The point of the meeting came down to review areas in the following three areas……….Current profitability in relation to the weekly flash to see if profitability was within target and if not actions were in place to move towards target………..Went through the flash on a profit centre by profit centre basis and came to the following conclusions

· Changes actions in place

1. PC 28 (a) will end on October 29. Hopefully to be replace by PC 28 (A)

· PC 28 (A). Discussed PC 28 (A) as a further problem has occurred PC 28 (A) are now pushing for consequential loss clause, although they seem to have accepted the minimum charge clause. We cannot accept this as potentially a claim could be unlimited, and PC 28 (A) are emailed to this affect

Document '06 Relevant emails Sep

3/9 PS to JC. I attach the variances the key points to make are:
. PC 28 (a). Improved from a declining trend - why?

Document '06~ SSS Ltd Group Commentary for Sep03

· The new PC 28 (A) contract started in October, with £4k of start up costs incurred this month. This replaces the previous PC 28 (a) contract and includes both transport and warehousing. Total sales are expected to over £3m pa, and it is anticipated it will provide consistent profitability after the initial set up phase is completed.

Document '07 Actions 31~10~03

Actions following our meeting this morning 31st October 2003 (re PC 28 (A)):

RW

1. Sort staff levels to meet budgeted figures, which are 19 shop floor 2 shift supervisors.
   3 short, temp to perm & re advertise
2. TUPE transfers still proving to be a problem start disciplinary process
   Ongoing
3. Attempt to keep to targeted volumes as per contract.
   Ongoing
4. Audit M3 by product as per PC 28 (A) listing
   During next month (started process)

Additional racking ordered 2 weeks time

MJ

5. Re trip facility for refused but correct goods email PC 28 (A)

· Re trip facility for wrong products email PC 28 (A)
ASAP

6. Create routine to convert required by date to the date a load is allocated.

A-3: PC28(a)

ASAP
7. PC 28 (A) confused by 7
Manual process in place until written

Commercials
8. Change contract wording to
· C C G outside the contract
· Expert / neutral
· Minor typo changes
· Final versions of both contracts to usual mailing list including RF
· Additional charges for re labelling sorted to be included (work with Linda to sort).
· Lease position awaiting Head Landlord consent Chase Hays.

9. Invoices need raising as follows, all on a weekly basis so CID can be used
· Schedule of stock transfer shunts
· 6000 pallet storage minimum
· Labour at cost + 10%
· Distribution ex CLAWS
· Confirm how we deal with changes of c3m post orders being sent to us, write to Bart explaining how we can only invoice original M3 until they have a mechanism to re send file after dispatch process.
· Dispensers take on staff ex PC 28 (a) sort with Linda
· Sort extraction of central team.

10. Additional charges for stand down of transport during the start up period to be agreed with Bart and raised as additional invoices. AF to agree with Bart ASAP JC to produce spread sheet of invoicing to date for AF to use to reconcile with Bart

11. Additional invoices need to be raised for the re-labelling of KSS products and the Dispenser re working, once agreed with Linda.

Document '07 Diary~October~03

Phone calls JC/ML
· Had arranged top meet at 3.00 pm to discuss and agree the Q3 and Q2 figures. JC rang to say that had teething operational problems at both PC 28 (A) and PC 35 following the introduction of a new system. Agreed to put the meeting off to Friday so that he could ensure that the operational problems were sorted. We both agreed that the relationship of the number to the ops was that it is necessary to get the ops sorted, and then to review the implications of the ops for the numbers to assess if further changes need to be made to bring the numbers back onto line. It I a constant rolling relationship of refreshing the number for the implications of the os, assessing if that meets requirement and if not instigating changes that bring it back on line. For this to happen essential to have a roll out of the projected outcomes of the operational actions agreed. THIS IS A GOOD EXAMPLE. In this instance we will put off the meeting to Friday by when we will have both the first week of Q3 to compare to the forecasts, plus an better idea if the first week teething problems of PC 28 (A) and PC10 have been dealt with

Monday, 13 October 2003. PC 28 (A). · JC had problems with the PC 28 (A) contract. The UK management panicked and a meeting was arranged for Sunday. JC did memo saying that all the delays were down to them and took a very aggressive line, which he discussed with me over the weekend. He is refusing to admit that we must throw extra resources in over the weekend and generally respond by changing out operational activities in response to their requirements. However the reason he was happy to take the robust line was that we consider our downside risk on the contract if we fell out with them is limited. We are in the building under licence, haven't signed the contract and under the letter of intent can claim compensation for £300k if the deal does not go ahead. THIS SHOWS THE USE OF FINANCIAL INFORMATION IN PROTECTING DOWNSIDE IN NEGOTIATING CONTRACT WITH A DIRECT LEAD ON TO OPERATIONAL ACTIONS IE JC BEING TOUGH.

· Discussed the PC 28 (A) contract with JC. There are many operational issues because the IT data that they have given us is not in the format they promised, which means that when we convert it to stock and delivery instructions the information is not correct which is causing operational problems. While this is mainly the responsibility of the client we are having to work hard not to get collateral blame.

A-3: PC28(a)

· The second issue is that the warehouse is out of the short term licence and the contract has not yet been finalised. We do not want to commit to the property as it is crystallising a future rent liability of £1.3m until the contract is signed, but we do not want to agree the contract until we have got all the necessary protections in that protect us from the variances from the assumptions that we have made and limit our downside to consequential loss and stock claims. The third issue is that if we lose the property and then cannot compete the contract are we liable to losses on the basis of the letter of intent. The solution we agreed was to confirm our legal position and aim to get all the matters finalised by the end of the week so that the time pressures do not build up and make the mismatch more difficult

· The PC 28 (A) contract appears to be nearer finalisation and the day to day operations seem to be working effectively JC able to spend two day at the Truck show in Amsterdam

Reviewed the revised flash and identified several where adjustments need top be made to the forecasts including an update on PC 28 (A) following the latest negotiations and the operational practice. Will wait till the HKLG board before we agree these

· JC made interesting point on bottlenecks at PC 28 (A). He had read the goal and had picked up that in the warehouse operation the business was only as good as the bottleneck in this case it tends top be goods out as if the trucks don't come back on time if there is not enough space the marshalling area if not big enough can get out of control, which is what happened at Braitrim. In discussion we agreed that getting in sufficient capacity to deal with the fluctuation in demand was important and that when we quote for future business we need to build that into the price and the costing. While this will make the quote more expensive it is important to sell the benefits to new customer and to make the point that anyone who does not build this in is likely to give a poor service so that the costs will be more in the long run as inefficient ways will have to be developed to overcome the bottleneck. THIS IS A GOOD EXAMPLE OF FINANCE PARALLELING OPS LKINKED TO TA CONCECPTS

· JC sent the proposed PC 28 (A) invoicing. This is currently complex but it is of key importance to get right as it hardens what we are actually going to do for the customer. If they reject what we a re charging for we are likely to change what we do so there is a clear connect between the operational actions and the financial information

Document '07 HLG Board Oct03

.1. South.

· PFL and Steelcase were under threat, but IM and PC 28 (A) should provide profitability that on a worst case counteracted the loss of profits.

Document '07 Notes for 281003

· PC 28 (A) budget confirm

Document '07 SSS Board Oct03.

3.2. This strategy had led to three significant new business wins PC 28 (A), PC8 and PC10 which were in the process of implementation.

Document '07~ SSS Ltd Group Commentary for Oct 03

· The new PC 28 (A) and IM contracts both started this month and are currently in the set up phase, and as such recorded small losses.

Document '08 Diary~November~03

Thursday, 06 November 2003. Got flash results very poor at £1k although big influence of £20k variance on PC 28 (A). Did variance and discussed with JC. Agreed that probably teething problems following recent changes but JC to discuss with operational managers

Friday, 07 November 2003. Discussed PC 28 (A) with JC. The losses had prompted a review of actual against budget performance that has been done by AF. Found that the sizes of the boxes were smaller than at PC 28 (a) so the planner John Carter had effectively not been planning full vehicles. Also the planning guidelines that John Carter had followed had changed so that he had not guidance of what was acceptable. At PC 28 (a) previously profitability had been substantially improved when planning guidelines for the number of pallets to be put on truck each day had been agreed.

A-3: PC28(a)

Andy had now agreed anew set of guidelines, adjusted for the size of the boxes, and said that no subies to be used unless agreed with Amsu, together with putting these guidelines on the wall for all to see. Apparently Andy very driven as does not want to be accused of bringing in a loss making contracts, reflecting the completion between the managers which is recorded by their financial performance

Reviewed PC 28 (A) invoicing this has been difficult to get in place as the contract is complex and this reflects its complexity. Compared flash to invoicing to ensure that actual invoices is reflected in the flash and agreed that would need to settle down to see that customers interpretation the same as ours as what to invoice. The value of the invoicing affects the profitability and therefore the approach we take to doing the job

Wednesday, 12 November 2003. Flash accounts. Flash accounts showed profit of £30k. Did full analysis of variances and forwarded to JC to follow up. Key points were that PC 28 (a) moved to break even not know what running trend is until it settles

Thursday, 20 November 2003. Flash accounts. Flash was down£18k on forecast so did full analysis to find out why. Clear that £5k for furniture, £4k for PC10 and £8k for PC 28 (A), caused because the costs structure was out of line with forecast intention

Agreed that PC 28 (A) has not settled down yet as the produce that we had planned to be distributing had not flowed through and overall the patterns had not yet settled. Confident that while in the short term will not get to target profitability this will be achieved within the next three months. If not will renegotiate with the customer on the basis that the profile is wrong.

Flash / meeting JC. Received flash and did analysis sorting out the variances from forecast benchmark which identifies the accounts which are not going in line with expectations. Reviewed these with JC to agree the action to be taken as follows. ***PC 28 (A) Transport. Russel has been reviewing the way the traffic planning is being done and is making changes which should bring it back to intended margin***

PC 28 (A) warehouse. Currently sales are low as only 50% of stock in so movement are down. As sales go up and efficiencies come form learning curve should move into profitability

Document '09 Diary~December~03

Reviewed the latest flash to draw out its implications. Agreed that while low on the face of it actions in place for those showing variance from intention as follows.

- PC 28 (A) transport. Get better terms either in pricing or product mix improvement
- PC 28 (A) warehouse. Will improve as PC 28 (A) volumes flow through

Document '09~ SSS Ltd Group Commentary for Dec 03

- PC 28 (A) transport continued to lose money as set up costs continued to be incurred, while PC 28 (A) warehouse performed well as a result of releasing additional sales relating to previous periods.

Document '10 Diary~Jan~04

Thursday, 15 January 2003. 10.00 a.m. meeting with AF. Reviewed the forecasts Andy. Basically agreed with projections so that the conclusion is that in broad terms trading is continuing in line with the current trend rate. The major concern is with PC 28 (A) where volumes have increased since Xmas as has been planned but there have been difficulties in getting the pick rate at the target speed. Put done to management issue which needs to be sorted

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Meeting with JC . The aim of the meeting was to be a preassement before visit to Bradford to review Q4 forecast with the North and furniture. However two major issues had developed with both IKEA and PC 28 (A) wrong and we agreed that it would be better for him to stay in the Midlands and deal with these issues

On PC 28 (A) a crisis was developing, as currently we were only able to pick 85000 units a week form the warehouse against the 125,000 profile shown in the contract. We were working three shifts and weekend so prima facie it looked that we would not be able to meet our minimum obligation. It was not clear whether the problem was management, the operational methods or that the assumptions on pick rates used in the contract negotiation were wrong.

A-3: PC28(a)

JC had started to get involved and it appeared that the implication of part picks which account for 70% of the face visits but 30% of the volume had not been appreciated. Currently they were having to be picked from reaching in the air whereas the design should be to have part picks done from locations on the floor. Agreed that JC needed to get closely involved to get a turnaround plan to overcome this problem. THIS IS A CLEAR LINK BETWEEN THE FINANCIAL PLAN OF A NEW JOB, THE OPERATIONAL REQUIREMENTS AND FINANCIAL OUTCOMES. We agreed that this was of critical importance as if we cannot fulfil our obligation a potential profit opportunity could turn to major losses from claims from the customer, loss of reputation, tying up of management time and the fixed costs of the warehouse that could not be covered if we lost the business.

RW has been introduced to run the warehouse and initial indications are that the management changes are having positive impact and the pick9ing rate is improving. The medium term solution revolves around more effective pick of part pick. JC has developed daily KPIS see emails to monitor performance against requirement

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Thursday, 29 January 2003. Meeting with JC. Review of current status. PC 28 (A) continues to improve although there has been a flurry of correspondence see emails and the company is taking away a proportion of the business that will harm profitability. This again shows the importance of the connections.

Document '10~ SSS Ltd Group Commentary for Jan04

· Results continued to be poor at PC 28 (A) as adjustments to operational methods are still be undertaken to bed down this new contract

Document '11 Dairy~Feb~04

Meeting with JC. The need for implementing the changes will be supported by the flash figures, which have been revised down following overstatement on PC 28 (a) and

Thursday, 19 February 2004. Flash. Analysed the flash it showed profit of £40 on the back of IKEA Croydon with £19k. However generally results were in line, with PC 28 (A) on an improving trend, and RW confident that further measure will bring it back to an acceptable level of profitability

PC 28 (A) contracts moving towards target following the cost reductions put through by Russel to bring the cost into line with the changed income. The changes to put the part picks on the floor should flow through in the next few weeks to further improve profitability

Document '11 HLG Board Feb04'

PC 28 (A). The implementation of this new account had not gone according to plan especially when the increased volumes had been taken on after Christmas. This had led to operational problems, which while being overcome were causing uncertainty for the financial outlook

The objective at PC 28 (A) is to restructure the operation of the contract at acceptable service and profitability levels following the difficulties encountered both operationally and financially in the post Christmas period. The aim is to achieve this so that the operational and financial performance are stabilised at acceptable levels for the future term of the contract.

As part of this it essential to undertake a review of the actual outcomes at PC 28 (A) versus the intended outcomes as detailed in the tender to identify where the differences between intention and actual outcomes occurred and the reasons for this difference. This will provide important feedback for consideration in future new business tenders

The trouble-shooting requirement arising from PC 28 (A) has hindered the development of the financial and operational reviews and controls. However it was agreed that these must be further developed and are a key element in enabling the company to meet its financial and service objectives. Specifically it was agreed that the development of greater control on overall vehicles costs was a key objective both to ensure that profitability from current operations is maximised and to provide robust and realistic operational and financial assumptions for new business tenders

Document '11 SSS Board Feb04

A-3: PC28(a)

3.2. The three new business wins PC 28 (A), PC8 and PC10 were now being implemented. While IM and PV10 were trading satisfactorily operational problems had been encountered at PC 28 (A). This had required the involvement of project and senior management in a trouble shooting role to overcome these problems. While management were confident that a satisfactory operational solution was being developed this had been at the expense of additional short term costs, extra take up of management time, and unclear future profitability outlook for the contract

Document '11~ SSS Ltd Group Commentary for Feb 04

Overall results continued to affected by lower than targeted results at PC 28 (A) as adjustments to operational methods are still be undertaken to bed down this new contract

Document '12 Diary~Mar~04

Wednesday, 04 March 2004. PC 28 (A) subies. The following email shows the problems of collecting information which is then not changed by subsequent information.
'A number of changes have been made to prior weeks for subbies as per PW's Email.
Also additional changes have been made to subbies that were not on CLAWS - see attached. Martin'

Received following email from JC and reviewed with current progress. Overall conclusion was that performance is generally in line with expectations. Details from email as below
'PC 28 (A) review complete, PW has been given the argument to go forward with, we are trying softly first before we get rough'.

Ill but see email produced by JC below indicating the actions arising from profitability shortfall picked up in the weekly flash comparison to target. This shows the operational actions arsing from the review of the financial information
'Hi Norman. There are a few issues which I feel we need to resolve fairly urgently and I write to you as I am unsure who will ultimately deal with them.
Transport operations, we are operating at a loss currently and whilst we are now only enjoying volumes at 40% of what we were to originally carry, the biggest direct cost to us is the decrease in cm3 per pallet space. We cannot continue to operate on the cm3 rate schedule currently in place, and I have asked Paul Walker to provide Lynda with a pallet based charging matrix which we would seek to apply from the 1st April 2004.
Demurrage charges, I understand we are under pressure to accept charges for delays at WH3 during the January problems. We are unable to do so for the following reasons:
We have always made it clear we are unable to accept consequential losses of any nature. The charges were not agreed by HLG before they were incurred, we cannot therefore consider retrospective charges. The delays were two fold, the warehouse was full and therefore no empty locations to use, and slow despatch adding to the problem as the task was significantly different from the one originally quoted for.
Invoicing and payments, We are experiencing payment issues, some of which I accept we have caused ourselves, however Bart is now raising some issues which we categorically disagree with, they are:
· Charging for original cm3 given for the order, we have since day one flagged this up as a problem, whilst we update your system with any physical variance you have as yet not provided us with an updated file for us to be able to change CLAWS. This has been stated time and time again as elementary to us being able to invoice precise cm3. Therefore we maintain that charges will be raised as per your advise to us at order stage until this file is being received.
· Consolidation of consignments, we have had discussions around both the practicalities of doing this and in fact specifically had to unconsolidated orders for some customers. Despite this we have as promised at the time our agreement was made consolidated, from a transport perspective, orders received on the same day requiring delivery at the same time. If orders are received on different days and through our efforts to change scheduling, picking and improve lead times to customers by rebooking (assuming the customer is happy), we do charge for two separate consignments. This was always going to be the case.

The above suggested pallet matrix would of course solve both of these issues and eliminate what must be an administrational burden for your accounts department.
Could you let us have your proposed timetable regarding the return of the Tork products to WH3, we discussed at the time you redirected the goods to your other store that it would be for a 3 to 6 month period. We obviously need to plan for its return from both a labour and space point of view and need to fully understand your requirements and be given a meaningful product profile.

I'm sorry to trouble you with this Norman but as I said I don't really know who to sent it to, and I feel a face to face discussion is required to resolve these issues.'

A-3: PC28(a)

Discussion with JC.. Had catch up discussion with JC and reviewed informally the state of play. There are key issues relating IKEA new contract, PC 28 (A) contract not working………, Brief review of the flash showed that RPR and Bristol now trading below trend, PC 28 (A) not trading profitably... Agreed that with new year coming u we need to sort out the approach we are taking to get these back on track. Programme of work agreed as follows

· Continue negotiations over the next week with PC 28 (A) and PC3 to get terms negotiated to give a chance of profitability

· Have full review on 31sy Mar with relevant ops managers to assess the financial outcomes of the negotiations with PC 28 (A), PC3 and where we are on IKEA

· Reviewed situation on PC 28 (a) payment they have not paid for two months and are now over £500k overdue. Agreed to get a legal view of out position and if they do not pay we will put them on stop. This is an extreme example of the financial pressure affecting operational decisions i.e. if we do not do get paid we will not so the work

Tuesday, 30 March 2004. PC 28 (A). A variety of phone calls with JC sorting non payment of PC 28 (a) accounts they are £900k overdue and up to 90day. Eventually after discussion with lawyers and management sent email saying will be on stop if they do not pay. By the end of the day got agreement that they would pay £600k and that at a meeting with JC on Thurs sort the issue. The problems relate to both claims for the service problems encountered in Jan and difficulties over the invoicing. The terms of the invoicing are not clear and they are complex to produce and are disputed by the customer. This shows how the financial outcomes of operational actions can effect the operational actions i.e. we would stop work

Document '12~ SSS Ltd Group Commentary for Mar 04

· This show an improvement from the previous month with the PC 28 (A) contract moving to a break even situation

Document '13 Diary~Apr~04.

Thursday, 01 April 2004. Phone conversations JC PC 28 (A) transport. Discussed with JC the PC 28 (A) meeting which he said had been quite hard. He said that he was he explained that as we were making no money we needed to get the contract onto a profitable and manageable basis, or else he was more than content to hand over the transport to another operator. No decisions was made but we will submit a pricing schedule that makes invoicing easier and allows to make some profit. We agreed that the key points was to eliminate the time consuming nature and if possible cover our exposure on the property

PC 28 (a) tr. Currently trading at a loss as the customer profile is different to that basis of the quote, but still in dispute because ops problems at set up in Jan lead to customer taking away much of the volume. For control purposes assume break even after review of cost, but requested increase will lead to profitability

PC 28 (A) WH. Now got to marginal profitability of £1.5k although below target as the volumes have been taken away as a result of the operational problems in Jan

Document '14 HLG Board May04

· Negotiations were still in place to stabilise the contractual terms at PC 28 (A) as the formal contract had not been signed as a result of the start up difficulties incurred in January

· Both PC 28 (A) and Braitrim and indicated that they wished to reduce the warehouse space taken, and it was greed that negotiation should be continued to agree the best terms and where necessary obtain new business to replace the business lost

· Profit improvement plan continued for the transport at PC 28 (A), Braitrim and PC3 with a specific review at PC3 to bring results into line with the profitability projected at the tender stage

Document '15 Minutes prof imp Meeting~Jun04

A-3: PC28(a)

1. Planners Actions

It was checked to see if all planners were using both the timelines ensuring drops were in route order on CLAWS

GS reported that his planners were completing as requested

PW reported that this was not happening at WH3 or Braitrim but he would ensure that this was resolved with immediate effect where possible.
It was noted that WH3 were unable to put orders in drop sequence in all cases due to booking times being altered whilst goods were on loads.

Document '16 Diary July~04

I had set the layout specifically to show week v plan, Q cum v plan and the last 4 weeks to show the recent trend. Russell is starting to do the review of the reasons for variances. Key point from this week were

	Act	Targ	Var	
PC 28 (A) Tr	5,017	2,188	2,829	High PC 28 (A) Sales

Thursday, 22 July 2004. Am reviewed the flash result first thing in line except PC 28 (A) and Braitrim, although not clear that the Braitrim pricing is right

3. Downside plan to March 2005. From the most recent weekly figures we seem to be getting recurring problems at Bratrim transport, PC 28 (A) transport and IKEA, so I have tried to get a feel for what happens if the current run rate continues

The two areas of potential weakness are the Midland contract of Braitrim and PC 28 (A) and IKEA. However JC had visited Mimworth to review Braitrim / PC 28 (A) with Paul Walker that morning, and he felt that events were under control. The terms of both contracts were being renegotiated and the outcomes were dependant on these negotiations. In particular the level of warehouse usage was changing, and negotiations were in place for increases to the prices at PC 28 (A)

Document '17 Diary August~04

The second major issue was Bibby. JC getting uncertain as he feels that we have many potential problems e.g. IKA, dilpas, PC 28 (a) £110k claim, and that the price which he feels is marginal will get chipped. Agreed that will aim to get a discussion with Theo on the contracts ASAP and make aware of the downside to the contracts at the earliest opportunity so that if they want to change their mind they do it at an early stage

Document '18 Diary September~04

Got copy of the flash and went through the key issue with JC ……. The other os issue is PC 28 (A) where is appears that they are restructuring three factories to one and they may be using us purely as a stop gap while they reorganise. Again negotiations for price increases are being done. In summary we recognise that problems at IKEA and PC3, PC 28 (A) and Braitrim where profitability levels are insufficient.

Then had meeting with JC and approved management accounts and reviewed the margin analysis. Agreed that this was beneficial reflecting the 11% margins less 6% to give 5%. From this clear that problems to be sorted are with IKEA, PC 28 (A) and Anatalis all of which seem to be caused by management problem specifically with PW and PY.

Wednesday, 15 September 2004. Got the flash in which showed that £20k was back on line with the exception of Anatalis and PC 28 (a) which are both well below trend. Discussed with JC and expressed view that this confirmed that PW had no control over operations, and reinforced these change to Garry, despite fears that he may be overwhelmed and is not sufficiently driven by profitability.

DP had also had full negotiation with PC 28 (A) where he had argued the price on the basis that the service provided and the profile of the size of the drops was different. Again apparently agreed on the basis of this a 5% increase from September, which is aimed at moving the margin up from the current 3% to 8%, which then is planned to be increased to 10% plus by Garry providing more efficient manage

A-3: PC28(a)

PC 28 (A) transport 5% rise potentially agreed plus pay off of £120k overdue, but will not be confirmed until meeting of 7 October if then.

Wednesday, 29 September 2004. Got first draft copy of accounts. Initial review showed the following problems.
PC 28 (A) sales write off of £26k flash not tie in with financial accounts. Also…….. Both of these are Midland division and reflect weak management by P Walker. Spoke to JC on this. Following points came out of the conversation. 1. Need to sort the PC 28 (a) sales there is a shortfall of £6k on the sales as per flash, but JC then said a further £13k not invoiced.
Section 2.1.8, Paragraph 148, 35 characters.

PC 28 (A) Tr (16,539) Sales down costs up

Got the flash – another problem with £2k loss. Review seems to suggest problems are widening. Review of (cum 3 month) performance is as follows with c £300k variance from plan. Email summarising changes to be made to first draft of quarterly target, which was based on extrapolation of previous quarter results.
- PC 28 (A) transport (Pen) 5% sales increase
- Transport cost saving of 2 vehicles - £2000

Document '19 Diary October~04', 2 passages, 586 characters.

After reflection over the weekend concluded that the deal should be put back by three months. This was summarised in a short memo as below
·PC 28 (A) - £3m
- Contract should have been stabilised by summer, but negotiations slowed by customer intransigence, and changing requirements
- Potential to re-establish long term relationship now recreated, but outcome will not be clear until January

Major issues affecting profitability are
- PC 28 (A) management and contractual problems - £4k
· Actions plans in place to address these, with positive indications in current week, but full benefits will take up to 8 weeks to flow through.

Document '20 Diary November~04', 2 passages, 55 characters.

Got the flash out ……………. JC analysis of the actions for each of the contract is as follows
PC 28 (A) Tr Under Negotiation
PC 28 (A) warehouse Under Negotiation

Document '21 Diary~December~04',

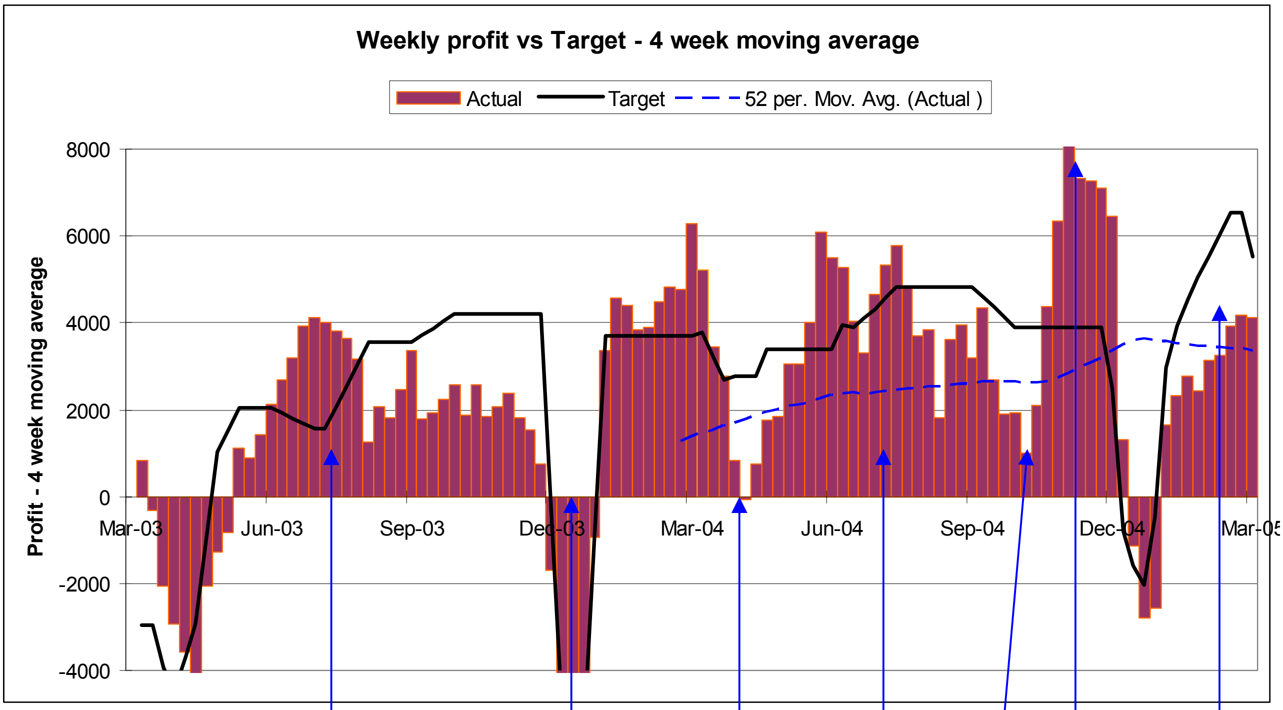
The flash results for nov are now showing over £30k which is in line with what we projected for Bibby in September. It has been achieved by pushing up the profits at the Network - PV10k, PC3, PC 28 (A) Warehouse etc and eliminating losses Bristol warehouse, IKEA and in progress Bradford warehouse

Document '22 SSS Board Jan05',

3.3. It was noted that there had been an unusually high degree of activity relating to contract renewals. These related to a variety of factors including ……. customer internal reorganisations (Arla BB, Arla Stratford, PC 28 (A)),. The current status of these negotiation was discussed at length and it was agreed that while the majority of these negotiations were still ongoing the general outlook was satisfactory, subject to some specific outcomes not being satisfactory.

A-4: PC6

SUMMARY	Wk cont	Margin	Var v Targ	Var v Mth
Mar-04	81,689	12.6%	(16,186)	(39,911)
Mar-05	171,232	7.7%	(23,790)	(40,328)



Date	Summary of Data
Apr/ Dec 03	– Trying to identify relevant ovePC26ead – ABC issue – Trying to get extra business to meet target, but not success – Performance not considered a key problem (because marginal profit and provides services to other depots)
Dec 03	Aim to get better network utilisation to overcome capacity utilisation problem
Apr 04	Sales shortfall over Easter break causes major issue
Jul 04	Suggest that better capacity utilisation is leading to improved performance
Oct 04	Interco pricing not catching up with fuel increases
Nov 04	Result show improved performance – from better capacity utilisation ? – but no evidence of analysis
Feb 05	Profitability affected by reduced Arla volumes following Arla Settle shutdown

A-4: PC6

DOCUMENTARY DATA – RELEVANT EXTRACTS

Document '01~ Aarco Group Commentary for Apr 03

PC6 showed losses as a reduction of some minor customer resulted in the overall cost base being too high for the sales. Actions are in place to increase sales or reduce cost

Document '02~ Aarco Group Commentary for May 03

PC6 showed reduced losses as the benefits of profit improvement actions were achieved

Document '04 Dairy July ~03

Northern review PS, JC, GS : Spent much time trying to get the ovePC26eads clarified at Bradford. Again agreed to charge all costs to Bradford warehouse and charge out proportion to the transport companies

Document '04 HLG Board Jul03'

Infill business for PC6 of c £6k pw with TDK was planned to commence at the start of August.

Document '04~ SSS Ltd Group Commentary for Jul 03',

The Arla contract performed at lower level of profitability, although their intercompany volumes benefited performance at Bradford

Document '06 Diary~ September~03'

Bradford tr. The additional sales promised from August onwards do not seem to have materialised although has moved into profitability. Assess position with GS

Document '06 Relevant emails Sep 03'

Attach the variances the key points to make are:

1. Bradford tr, WB transport, Fissions, Thwaites. These five £22.3k below average trend, rest have other factors impacting performance

Document '07 Diary~October~03',

PC6 OK. Extra work from new client should consolidate

Document '08 Diary~November~03

Brad transport. Trend below forecast, but not key issue at present .

Document '09 Diary~December~03

Network. Rationalise network traffic and organisation Bradford Tr, WB trans, Brat tans, Avery

Document '09~ SSS Ltd Group Commentary for Dec' 03,

….and PC6 a below trend performance as ovePC26eads have been reallocated from the warehouse to PC6

Document '13~ SSS Ltd Group Commentary for Apr 04

A-4: PC6

This results was adversely affected by the Easter break, especially those PC6 PC20, PC10 and Thwaites where the cost / income ratio is especially vulnerable to sales shortfalls

Document '13~ Target issues',
Consolidate Adelspan to eliminate loses at PC6

Document '13~SSS Commentary Mar 2004

Improvements over the year are projected at …. and PC6 where the profit improvement actions taken last year are consolidated

Document '14 Diary~ May~04'

Got flash though and did analysis. Mainly in line with trend except PC 35 and PC6.

Document '16 Diary July~04'
……. Also evidence that use of capacity is leading to improvements at Brad transport and Aral generally

Document '18 Diary September~04'

Bradford tr (9,922) Higher fuel & wages costs

Document '19 Diary October~04',

PC6 id £2.3k below, but this is caused by the interco pricing not having caught up for the fuel increases, which are covered largely by fuel supplements which are not passed on internal transfer

PC6 is under target, but because they have not had the benefit of the fuel charges

Document '20 Diary November~04',

Bradford tr Maintain

Document '23 Diary February~05'

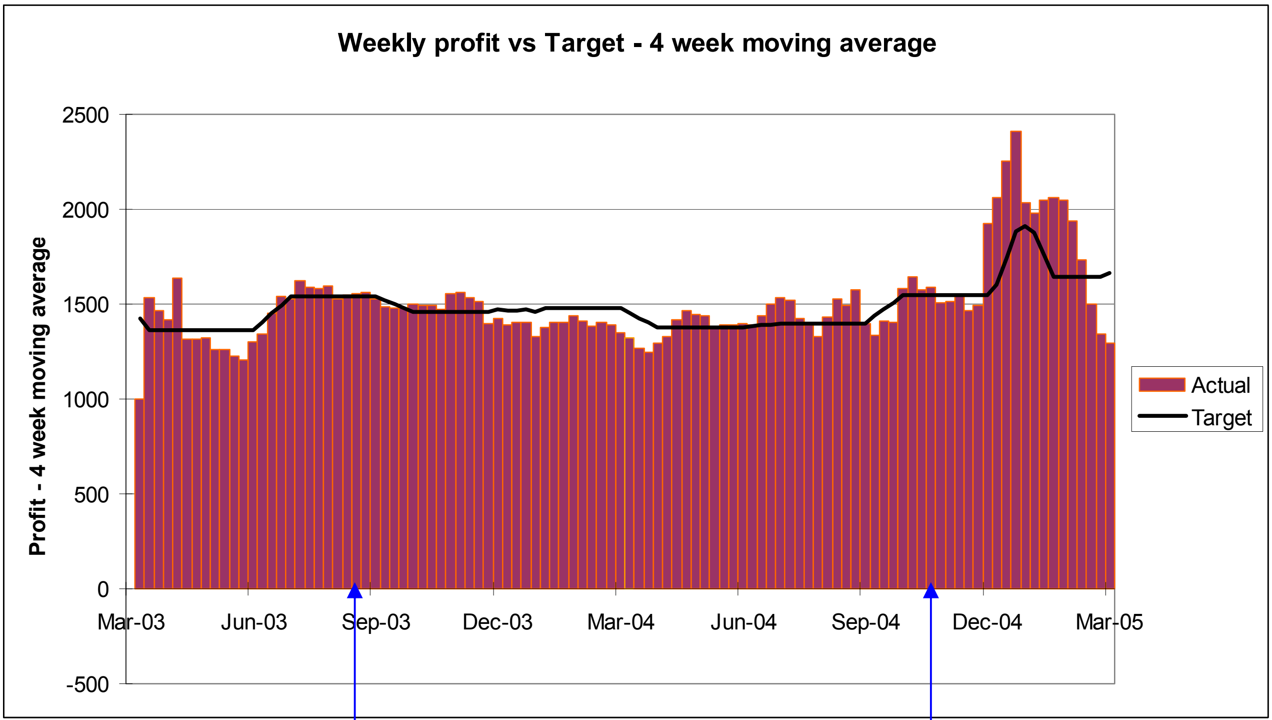
Got the flash though which showed a disappointing performance of £20…….
Bradford tr: (9,524) -Stuck at low levels of profitability - why diff to pre Xmas when making £10k

Following flash JC had longer conference call to establish reason for profits down. Following are key conclusions of results against targets.
…………………………….
Review by GS Bradford and Hunters to ensure minimum fixed cost, maximum profit, feeling is will come right when Arla back at proper levels.

A-5: PC26

26 PC26

SUMMARY	Wk cont	Margin	Var v Targ	Var v Mth
Mar-04	74,655	24.4%	(1,225)	13,096
Mar-05	81,291	26.8%	2,621	10,036



Date	Summary of Data	Action/ Issues
Sep 03	No change required in line with target	
Nov 04	Maintain	

DOCUMENTARY DATA – RELEVANT EXTRACTS

Document '06 Diary~ September~03

· No change required in line with target
10. PC26

Document '20 Diary November~04

PC26 Maintain

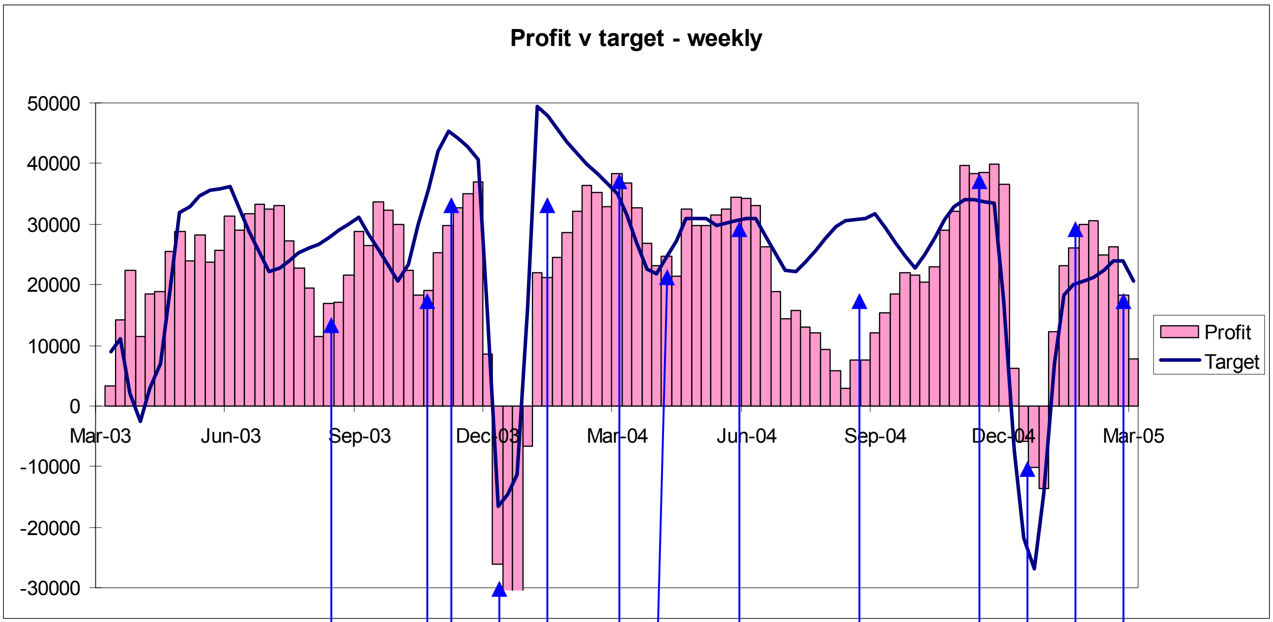
B OPERATIONAL PERSPECTIVE – ANALYSIS OF FINDINGS

See Excel file Pages 403 to 428

C CORPORATE CASE STUDY – FINANCIAL DATA AND ANALYSIS

See Excel file Pages 429 to 439

D-1 WEEKLY ACCOUNTS – DOCUMENTARY (PRECIS) VS FINANCIAL



Summary of Evidence

Date	Summary of Data	Source
Sep 03	– Downturn investigated and identified as caused by sales slowdown in holiday season. Conclude that generally in line	Diary
Oct 03	– Downturn in profitability noted. Assessment suggest that discretionary spend (e.g. agency/ subies) as many manager off on hols or quoting on new business. Agree to tighten control on discretionary expenditure	Diary
Nov 03	– Profit assessed as improving, although major element is major accounts – IKEA, PFL, Steelcase. Continue pressure on North to focus on profitability	Diary
Xmas 03/04	– Seasonal downturn. Variances discounted as level of impact difficult to assess as income/ cost relationship changes each year	Diary
Jan 04	– Profit identified as being below expectation. Restructuring exercise initiated to improve profitability across the board including ovePC26eads assessed as rising too fast and restructuring instated to bring a reductions	Diary
Mar 04	– Profit now assessed as being in line with expectation	Diary
Apr 04	– Seasonal down turn over Easter – OvePC26eads assessed as increasing on year by year basis as central functions are strengthened	Diary
Apr/ Aug 04	– Overall profitability assessed as being in line with expectations	Diary
Sep/ Oct 04	– Problems identified over a range of contracts and actions plans initiated to bring back to target profitability. Leads to deferral of Bibby Deal from target of November 2004 to the New year	Diary
Nov/ Dec 04	– Results assessed as being back on line in response to profit improvement initiatives	Diary
N Year 04/05	– Seasonal downturn. Variances discounted as level of impact difficult to assess as income/ cost relationship changes each year	Diary
Jan 05	– Profit assessed as being back on track	Diary
Mar 05	– Further downturn noted	Diary

D-1 WEEKLY ACCOUNTS – DOCUMENTARY (PRECIS) VS FINANCIAL

Overheads evidence

Date	Source	Contents	Code
Apr 03	Comm	− Profit centres reallocated	OH+Struc
Jun03	Fin analysis	− Step change in level of ovePC26eads, as shown in excel files for two reasons – a)Additional provision of £6k pw put through to cover unexpected costs, b) Additional £5k for a reassessment of insurance costs	OH+Struc
Jul 03	Diary	− Need close link of sales and ops	OH+Struc
Jul 03	Diary	− Aim to get management team buy in to targets	OH+Struc
Jul 03	SSS Bd	− New structure – GMs appointed to allow DD work more on sales	OH+Struc
Aug 03	Diary	− Aim of board meeting to make ops managers responsible for performance	OH+Struc
Oct 03	Diary	− No need to do an ABC exercise as ovePC26eads run at around 6% regardless of sales	OH+Struc
Jan 04 / Feb 04	Emails	− Restructuring email – reduce role of GMs – triggered by poor flash results, and variance of flash from man acs. RICH. Take sales responsibility away from operational and give to central	OH+Struc
Feb 04	Email	− Proposed restructuring to reduce ovePC26eads and increase efficiency – get rid of GMs and strengthen role of Contract Managers	OH+Struc
Feb 04	Diary	− Garry arguing that has got distanced from HO through build up of HO management. Particular issue is changes since appointment of Dean as Commercial Director	OH+Struc
Mar 04	Diary	− Review whether to make bonus divisional not Group. Issue relate over fair allocation of ovePC26eads – ABC issue. Provisionally keep Group bonus	OH+Struc
Mar 05	Diary	− Continuing development of slimmed down focus with a narrower management team, focusing on semi dedicated contract and operating in a Post IKEA structure	OH+Struc
May 04	Diary	− Issue of costing for work when knowing that new business will produce spare capacity. – price on an ABC basis, but assume can get throughput to cover the spare capacity. Direct link to strategy − Full ABC exercise undertaken using a variety of drivers to allocate central costs to depots. On review with CEO concluded that provide no better information than flat ovePC26ead allocation as there is an element of subjectivity in the allocation methods used − Triggers analysis to see if cost can be made to fit sales more flexibly	OH+Struc
Jun 04	Profit improvem ent	− Trying to get better analysis of empty running so can use up capacity better – TA type approach	OH+Struc
Sep 04	Dairy	− Restructuring being considered as response to poor profitability especially as result of management problems with PY/ PW. Solution to merge Midlands and North as one Network division, although risk that will give Garry too much power	OH+Struc
Nov 04	Diary	− Conclude that IKEA had been absorbing and that if focussed on business that needed less management involvement and had margins of 10%+ could improve profitability	OH+Struc
Nov 04	HLG Bd	− Agreed that change ins structure leading to good potential	OH+Struc

Bonus evidence

Jul 03	Diary	− Agree to pay bonus on flash results not management accounts	Bonus
Oct 03	Diary	− Q2 account revised to incorporate changes identified in man acs. Relevant as used for bonus. Issue of what figures to use for bonus	Bonus
Feb 04	Diary	− Debate on whether to pay bonus on flash even though ups and down that affect result. Shows issue of how bonus is calculated	Bonus
Mar 04	Diary	− Review whether to make bonus divisional not Group. Issue relate over fair allocation of ovePC26eads – ABC issue. Provisionally keep Group bonus	Bonus/ ABC
Apr 04	Diary	− Again review whether bonus should be group or divisional/ individual. Last quarter bonus reduced because of poor PC 28 (a) performance – and then	Bonus

D-1 WEEKLY ACCOUNTS – DOCUMENTARY (PRECIS) VS FINANCIAL

		discretionary bonus given to compensate for negative impact	
Jul 04	Diary	− Problem identified with bonus is that when achieved disincentive when have to raise. Agreed cannot have hard and fast rule but have to keep chopping and changing − Agreed that result in North has improved as contract managers were getting bonuses	Bonus

Plan evidence

Jul 03	Diary	− Aim to get profits of £400k PQ to provide divi to shareholders	Plan
Jun 03	Diary	− Use financial projections to test validity of strategy – aim to get £1.5m profits. Identify that need more sales	Plan
Aug 03	Diary	− Use projection of current outlook to test strategic outlook	Plan
Aug 03	Diary	− Potential tacho fine could have large financial impact – but not quantifiable – uncertainty of plans	Plan
Sep 03	Diary	− Aim to ensure PL= cash flow through BS structure − Need to assess going rate profitability to identify if there are identified future circumstance that will affect future profitability	Plan
Sep 03	Comm	− Conclude that profitability in line with projections including KPMG whitewash – project £1.2m pre interest - £.800k post interest	Plan
Oct 03	Diary	− Approve Q3 targets. North has modelled cost structure that show acceptable level of profitability. This has led to a significant improvement in profitability	Plan
Dec 03	Diary	− Allocation of central ovePC26eads using the 6% rules identified several profit centres running at a loss. Conclude that accept in short term but try and exit from the medium terms	Plan
Feb 04	Diary	− Initial projections to Mar 05 to test financial outcome of current strategy – agreed outlook Ok to provide minimum dividend target fro shareholders	Plan
Apr 04	Docs	− Identify list of operational actions aimed at improving financial performance	Plan
Apr 04	Budget	− Working budget done for the year to March 2005 giving PBT of £715. This is much lower that the quarterly targets, and in practice was fairly near the financial outcomes	Plan
Jun 04	Diary	− Trying to get better link between drivers of cost and financial outcomes by identifying what is the main determinant of profitability	Plan
Jun 04	Comm	− Forecast to year being based on base level plan	Plan
Jul 04	Diary	− Potential major downside identified as recurring problems at in particular IKEA, PC 28 (A) transport and IKEA transport, and question mark over the exact IT and salary spend. Evidence of projections providing a lead indicator	Plan
Oct 04	Diary	− Analysis showed that over past three months become clear that much of the customer base (14.5m) was subject to requoting, and that had been major management problems arising from PW and PY. Conclude that have put actions in place, and can only monitor outcomes to see if they meet intent	Plan
Nov 04	Plan	− Produce outline of potential plan to improve profitability to £1.7 by increasing margins, focusing work and reducing central costs.	Plan
Nov 04	Diary	− Used ad hoc projections to test potential outcomes for period up to Mar 06. this provided evidence of a number of ways in which a profitable response could be made to the threat of losing IKEA which had been producing a significant amount of the profitability. Conclude that IKEA too much of a threat and needed to build a life outside of it, and that needed to get a reduction of income ovePC26ead ratio.	Plan

Target evidence

Jul 03	Diary	− Aim of target to identify intended performance to stimulate response if out of line	Targets
Jul 03	Diary	− OvePC26eads evened out to include lumpy costs	Targets
Sep 03	Diary	− Described production of target in great detail	Targets
Oct 03	Diary	− Detailed description of how produce targets – continue from past with any known	Targets

D-1 WEEKLY ACCOUNTS – DOCUMENTARY (PRECIS) VS FINANCIAL

		changes. Results in target being reduced to £325k from £450k	
Jan 04	Diary	− Description of Q4 target setting	Targets
Feb 04	HLG Bd	− Outlook in line with expectations	Targets
Mar 04	Diary	− Trying to get procedure that initiates more analysis of profit centres, rather than just rolling on historic performance	Targets
Apr 04	Diary	− Issue on target setting is ‘do we give an overall target to ops management and ask them to work out how it can be achieved, or do we prescribe the make up, using benchmark statistics − Undertook by providing detailed make up and reviewing the content not just the bottom line number wit management	Targets
Apr 04	Diary	− Trying to make link between operations and financial outcome clearer by making the costs projection be understood in terms of the financial consequences of operational actions. Conclude that layout has to fit the context of the analysis	Targets
Jul 04	Diary	− Produce Q2 target. Detailed discussion of ensuring that logic is sound	Targets
Jan 05	Diary	− Produce projection for Q4 based on performance of 6/11 to 18/12 when the benefits of the profit improvements actions flow through	Targets

Sales evidence

Date	Source	Summary of Data	
Jul 03	HLG Bd	− Sale need to work closely with ops management	Sales
Sep 03	Diary	− New quoted being undertaken using the MA flash reporting form. Show link between sale, ops and accounts	Sales
Oct 03	Diary	− Aim to get more business to push profit forward	Sales
Oct/Dec 03	Diary	− Trying to use sales to push up margins – appoint expensive Commercial director	Sales
Jan 04	Diary	− Complexity of modelling he financial structure of the IKEA operation to ft in with the new process	Sales
Feb 04	HLG bd	− Trying to get new commercial director to focus on higher margin business	Sales
May 05	Diary / HLG bd	− Evidence of trying to get sales to fill in spare capacity – this is in effect the alternative to the ABC approach fro new business	Sales
Nov 04	HLG bd	− Concluded that the new sales approach had not worked . New approach tried	Sales
Feb 05	HLG bd	− Concluded that sales approach not working and that new business was being gained from referrals. Further new approach to be developed with a more direct approach	Sales

D-2 MONTHLY ACCOUNTS – DOCUMENTARY (PRECIS) vs. FINANCIAL

Monthly accounts production

Date	Summary of Data
Gen	– Majority of the data relates to the issue of reconciling the flash and the monthly accounts and detailing the wide number of ways that cause the difference. May be useful to provide an in depth classification of these
July 03	– Problems of cost allocations to profit centres – e.g. Bradford warehouse – Concluding that operational accounts and flash will never reconcile as showing different thing (9 July). Difficulties identified in detail
Aug 03	– Identifying differences flash accounts (Aug29)
Sep 03	– Good months results (July 03) so write off to provide cover – general provision and Brum dilaps written off in July when could have been done in any time in the past four years – only write off because good month – Issue on allocation of insurance costs which has risen significantly over time
Nov 03	– Importance of rational accounting controls to maintain validity of information – the one key link is back to cash
Feb 04	– Agreeing monthly accounts (Dec 03) with sufficient provisions to cover potential issue (these later cam out in the year as add backs to profit which suggest that the management accounts were produced to show hat was acceptable during the year to outside stakeholder, not the operational reality, as the operational reality is difficult to assess in a finite short reporting period
Mar 04	– Importance of coding highlighted as a method of ensuring that operational and financial accounts are consistent. RICH. Example of BT costs. This leads to the proposal for the CRS system – Problems of calendar highlighted with the cut off for weekly accounts straddling months and making monthly invoices difficult to reconcile with a weekly systems. RICH. This is a major issue inherent in the nature of the information
Apr 04	– Accountant on verge of nervous breakdown
May 04	– Full ABC exercise undertaken using a variety of drivers to allocate central costs to depots. On review with CEO concluded that provide no better information than flat ovePC26ead allocation as there is an element of subjectivity in the allocation methods used
Aug 04	– Difference between flash and management identified as being less than used to be as coding and comparability have been improved
Oct 04	– Major problem reconciling leased motor vehicles as the invoices cover a range of differing time periods and contract types (This later led to an overpayment of £400k as a supplier was invoicing for the same vehicle twice, but using different aggregations of vehicles for different periods of time) RICH

Weekly vs. Monthly accounts production evidence

Date	Summary of Data
Jun 03 Jun/Jul 04	– Decided that weekly (flash) accounts should be produced by the projects team (operations) not the account department. Purpose is to get financial information nearer and understood by operations. – Decision not implemented for another year because of the complexity of producing the flash due to the differing and unstandardised categories
Jun 03	– Step change in level of ovePC26eads, as shown in excel files for two reasons – a)Additional provision of £6k pw put through to cover unexpected costs, b) Additional £5k for a reassessment of insurance costs
Jul 03	– Agree to put in £3k p week contingency to cover unexpected costs
Jul 03	– Trying to standardise the flash production so they use the same codes as accounts – found to produce a large number of issue to get the classifications between operations and accounts compatible – Major issue that developed is that operations need the cost the mirror the underlying operational reality, whereas accounts are only interested in mirroring the corporate reality. RICH EXAMPLE – trucks move around and change cost centres from day to day – accounts not bothered as it is a corporate cost – Second issue that accounts are concerned with accuracy and control and are therefore more interested in the checks that the vehicles are there – and this can be done retrospectively so the information is late

D-2 MONTHLY ACCOUNTS – DOCUMENTARY (PRECIS) vs. FINANCIAL

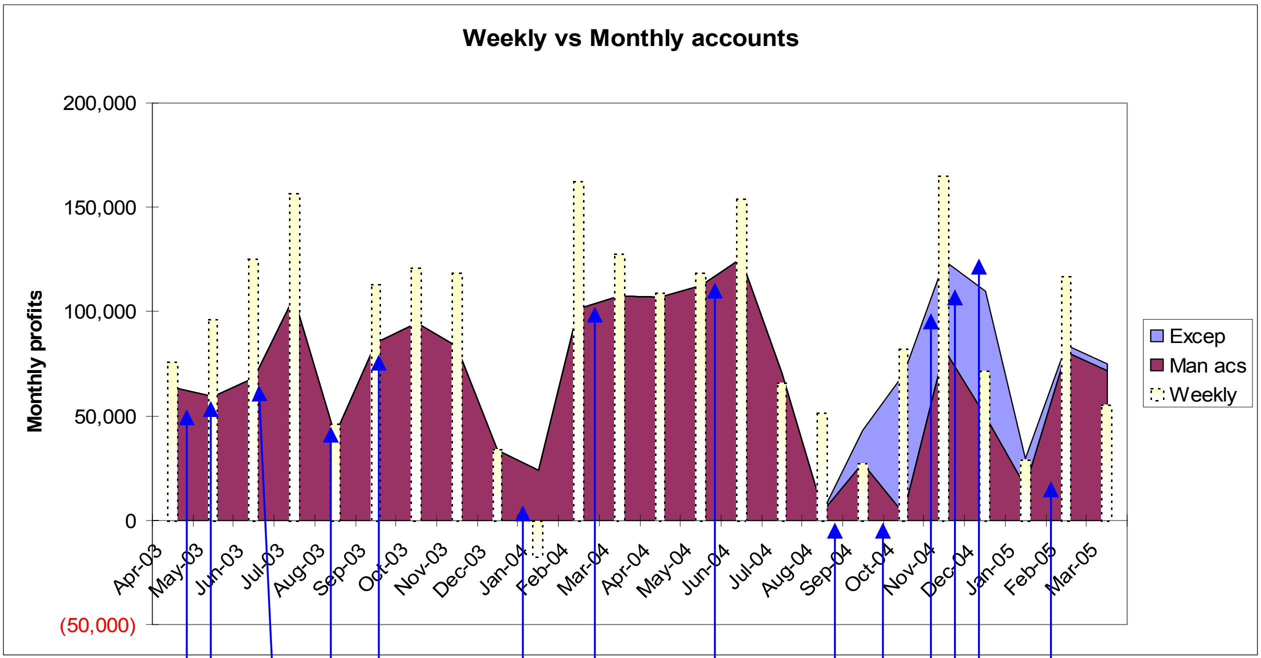
Jul 03	− Examples of where difficult to ensure flash accuracy – explains the variance from the management accounts (17 July) – Interco, vehicles, lumpy costs, sales, cost not recorded (e.g. agency) − Suggestions that operational accounts should be more in the formal of income and expenditure – Sainsbury's shopping list – as this is understood
Aug 03 Feb 04	− Another factor with flash is the constant change – this reflect the constant change in operations and is different to the standardised production of accounts. But the change is necessary to fit to operational reality
Sep 03	− Flash accounts subject to backward revision as more information come though – RICH - BONUSES
Feb 04	− Cost structures cannot be split into fixed / variable as they tend to vary but not in a precise manner
Aug 04	− Further list of types of cost that change
Sep 04	− Using ABC cost for the flash – i.e. allocation of central ovePC26eads not of use as operational cannot control central costs.

Summary of cost control system development evidence

Date	Summary of Data
Jun 03	− Aim to set up a system that captures all cost as they are incurred to make the flash accounting system a real time accurate accounting system
Jul 03	− Initial software proposals reviewed. Linked development was that the flash accounts should be produced by ops not accounts
Sep 03	− Development stalled as other project considered to be more important
Oct 03	− Evidence of problems of trying to capture the information real time, as the overall costs is not necessarily identifiable at the time it is incurred, or is it possible to allocate it to the necessary cost centre. − Try to refocus on the developing the systems the flash is used for the bonus, and its integrity is of key importance − Key element is identified as validating the information
Nov 03	− Introducing the system to operational management – the aim is to get them to own to initiation, recording and approval of costs
Dec 03	− Agreed that need three levels of cost code – profit centre, accounts cost code and operational cost code. The operational cost code will be the most fine grained, then aggregated up into accounting cost codes and profit centres.
Mar 04	− Development is being hampered by continued difficulty in getting harmony between account and operational codes. The problem is that the invoices come though 8 weeks after the cost has been incurred, and often from supplier include an amalgam of different transaction which cannot be easily separated.

D-2 MONTHLY ACCOUNTS – DOCUMENTARY (PRECIS) vs. FINANCIAL

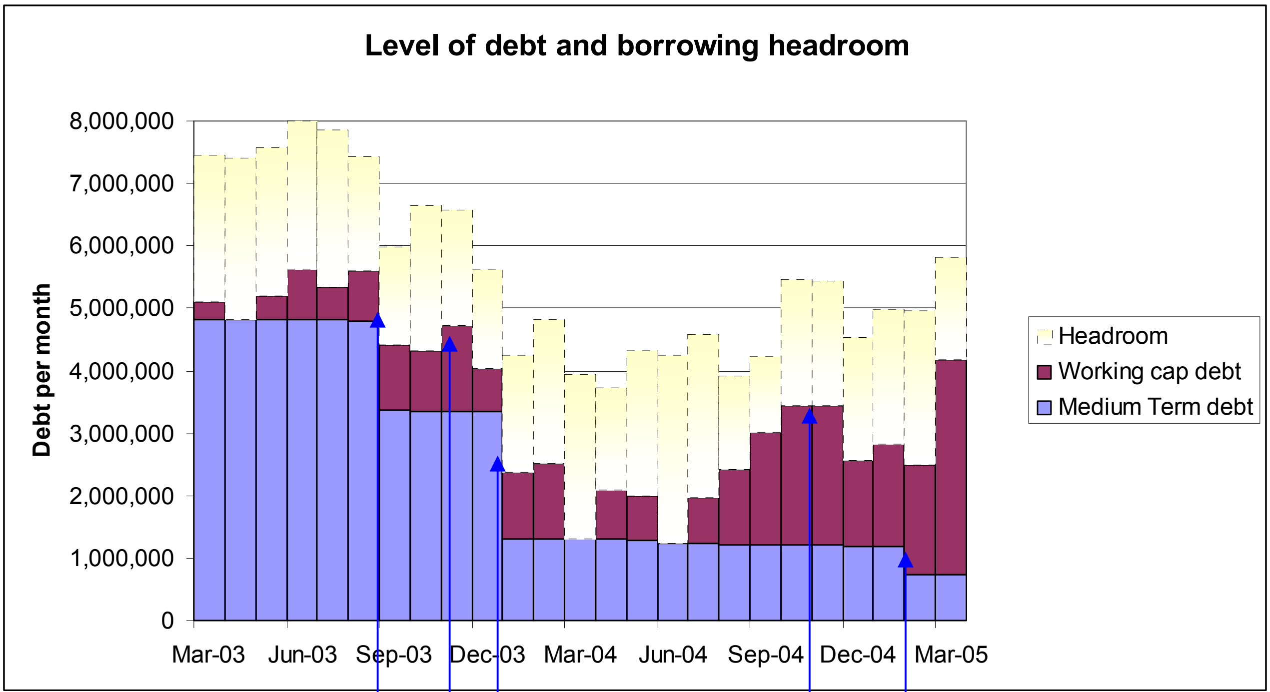
Monthly accounts - performance



Date	Summary of Data	Source
Apr 03	– Negative impact of Easter	Comm
May 03	– Negative impact of May bank holidays	Comm
Jul 03	– Trying to identify reason for variances flash v man in accounts to June – difficult because monthly accounts include one off expenditure whereas flash is trying to identify underlying trend - e.g. inclusion of dilapidations costs – Board conclusion that results are good and that there is too much emphasis on negative performance	Diary Board
Aug 03	– Results below trend because of holiday season	Comm
Oct 03	– Results assessed as being in line with expectations – even though showing worse that the flash results	Comm
Xmas 03 /04	– Downturn accepted as seasonal	Comm
Feb 04	– Timing issue identified showing why monthly and flash accounts are different and have to be interpreted differently.	Diary
May 04	– Overall performance judged to be in line with expectations	Comm
Jul/ Aug 04	– Results affected by poor performance at IKEA. Anticipated that this will continue in August because of holiday season, but results will pick up again in September onward when holiday season over and remedial actions flow through	Comm
Oct 04	– Outlook reduced down because turnaround if IKEA identified as being slower than anticipated. Exceptional costs relating to compensation , dilapidation and corporate finance costs identified	Comm
Nov 04	– Profitability identified as improving as a result of the remedial actions instigated in Q2 – Jul to Sep. Focus of profitability is on the profit pre exceptional items	Comm
Dec 04	– Major trend improvement identified comparing Q2 to Q3 - £358k vs. £121k – identified as a result of remedial action identified at operational level	Comm
Jan 05	– SSS board reports that there had been a significant improvement as the benefits of the profit improvement actions flow through	Comm
Feb 05	– Downturn post Xmas identified as seasonal, made worse by shutdown of Arla factory – a major customer	Comm

D-2 MONTHLY ACCOUNTS – DOCUMENTARY (PRECIS) vs. FINANCIAL

Bank and Cash



Date	Source	Summary of Data
Aug 03	Diary	– Sale of first warehouse after months of negotiation
Sep 03 Jan 04	Diary/ Board	– Aim of the sales and leaseback is twofold – Reduce the profit covenant for the bank to £300k from £800k. – Enable greater proportion of profitability to be distributed to shareholders
Oct/ Dec 03	Diary	– Noted that debtors balances extending as debtors require longer payment periods
Jan 04	Diary	– Finalised S+L of second warehouse – Negotiate with bank to try and limit difficulty of the covenants – linked to uncertainty of future profits
Apr 04	Diary	– Email describing how collection of debtors being transferred to operational managers as this provides immediate feedback of whether the customer will pay their invoices and therefore closes the loop on confirming what a sale is
Jun 04	Diary	– Agreed new improved CID facilities which again enable a higher level of payout
Sep/ Dec 04	Diary	– Delayed payments from IKEA hit cash flow
Jan 05	Diary	– Further repayment of bank term loan

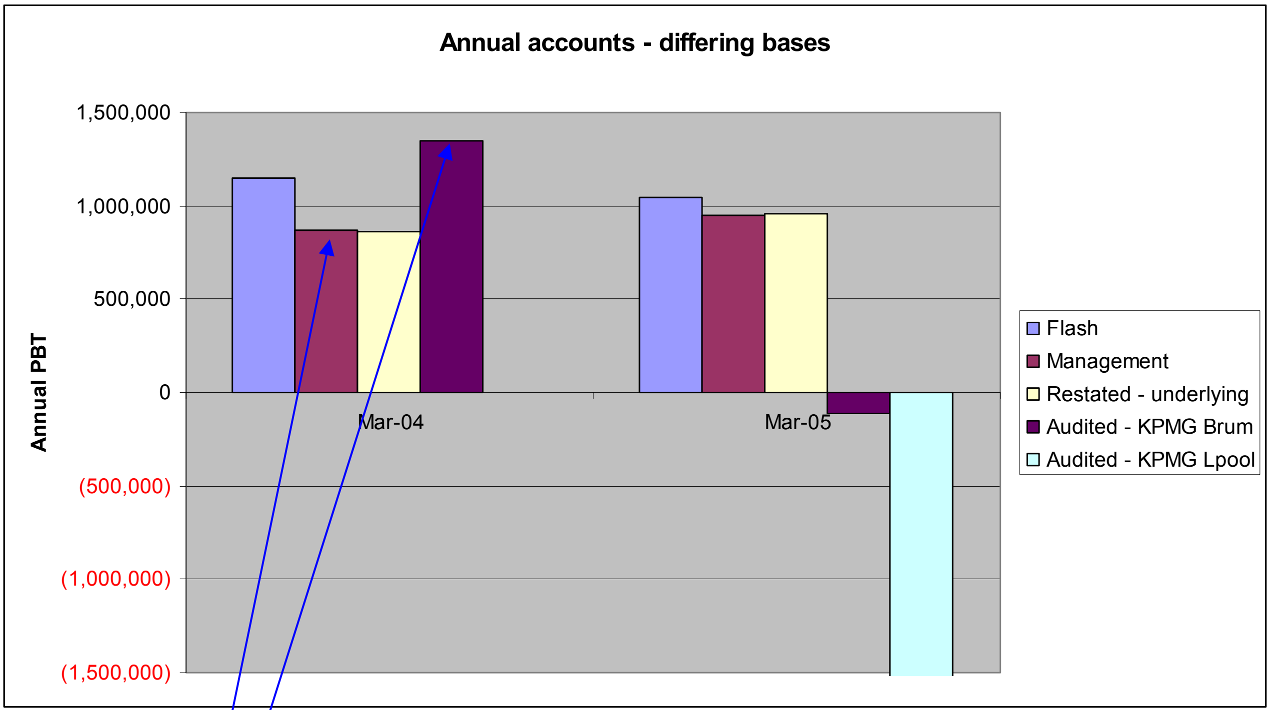
D-2 MONTHLY ACCOUNTS – DOCUMENTARY (PRECIS) vs. FINANCIAL

Financial Stakeholders

Date	Source	Summary of Data
Jul 03	Diary	− 3is and their non exec interpret results as going well – indicates that further removed the more the performance is reviewed on an aggregated basis
Oct 03	Diary	− Example of use of internal information to get cost reductions – negotiation to fund truck from Abbey Nat
Apr 04 Jun 04 Jul 04	Diary	− Example of use of internal information to value business – level of information required by LG. Initially not given to Bibby as too sensitive – this show the value of the information. Also required that the information is supported by audited accounts
Jul 04	Diary	− Whole Bibby approach to the purchase is run by interpretation of accounts from the initial meeting where there are three accountant present
Jul 04	Diary	− Used internal assessment to decide whether we wish to sell the business. Came to the conclusion that as the future was uncertain, it would be better to convert potential but uncertain upside into a certain future.
Aug 04	Diary	− Doubts on the Bibby sale as problems in profitability become apparent
Sep 04	Diary	− Used analysis of internal information to value the business from an internal perspective, and also to identify possible savings that could be achieved following acquisitions
Oct 04	Diary	− Concluded that the deal should be put off for three months – see memo in overall operational perspective
Dec 04	Diary	− Decided that results had improved in lone with intention and that the deal should continue with Bibby
Feb 05	Diary	− Commercial due diligence with PWC almost exclusively focussing on the monthly accounts, and the operational structure behind it

D-3 ANNUAL ACCOUNTS – DOCUMENTARY (PRECIS) vs. FINANCIAL

Annual accounts production



Audited accounts to 31 March 2003

Date	Source	Summary of Data
July 03	Dairy	Audited accounts for 10 weeks to March 2004 do not fit with any management information. Specifics reason identified

Audited accounts to 31 March 2004

May 04	Diary	Restating the management account format in annual accounts format, and putting accounting adjustments driven by FA rules
Jun 04	Diary	Produced two set of parallel accounts with the same level of profitability, but different aggregations to reflect the different purpose behind the accounts
Jul 04	Diary	Reconciliation showing the changes between the management accounts and the audited accounts, showing the difference between the two

Audited accounts to 31 March 2005
Annual accounts not covered as business had been sold, and lost access to internal data . However as part of the completion process produced set of accounts which were audited by KPMG Brum as a basis for the completion accounts, and then re-audited by KPMG Lpool using the Bibby accounting policies. The audited accounts included both costs triggered by the sales process (e.g. Pension payments, corporate finance costs), changes in accounting policy, inclusion of extraordinary costs (e.g. PY redundancy), and correction of prior errors (e.g. PC 20, PC 28 (A)). This gives five set of accounts as shown above, with the restated (audited) identifying the underlying profitability after taking out all the ones offs, errors, crystallisations and changes in accounting policy