

Parul's Profit Predicament Growth and Branding Char of a Publisher

AGENDA

- BACKGROUND
- PROBLEM STATEMENT
- ISSUES
- ALTERNATIVES/RECOMMENDATIONS
- IMPLEMENTATION
- CONCLUSION

Introduction

Sean Wright founded Fit Food, Inc (FFI) in 1972



Developed a new line of cookies called "Smart Cookies"

2000: Smart Cookie distributed nationally! Also launched

FFI IPO, listing company stock on NASAQ

2001: Savory Snacks Division introduced

2003: Acquired energy drink company, forming the Sport

and Energy Drinks Division

2009: Company was consistently profitable, but heavily

leveraged



"Tasty but Healthier!"

Problem Statement

- Inadequate/loose control systems
- Divisional Managers manipulating data to achieve individual bonus goals
- Pressuring divisional managers to focus on the short-term performance by providing misaligned incentives
- Lack of internal audit system



"A 34% cut in our corporate ethics should return us to profitability."

Major Problems

- 1)Lack of Internal Audit Function and Fraud
- 2)Use of Accounting Reserves
- 3)Shipping
- 4)Capitalization of Expenses
- 5)Bureaucracy
- 6)Means-End Inversion
- 7)Lack of Goal Congruence with the CEO
- 8)Integrity
- 9)Lack of Documentation

1) LACK OF INTERNAL AUDIT FUNCTION

- No monitoring and evaluation of risk
- No checks to make sure internal control processes are working
- Sean Wright (CEO) should create an internal audit function

2) USE OF ACCOUNTING RESERVES

- President of Drink Division used reserves to manipulate profits in order to meet targets
- Income smoothing distorts management decision making

Recommendation

 FFI can combat this by setting up more attainable targets to reduce the need for gamesmanship

3) SHIPPING

2008

- 1st quarter sales fell below desired levels: inducing customers to take early delivery
- 2nd quarter orders became slow
- 3 managers shipped unordered product to customers

- Negative effects results controls in the Annual Operating Plans (AOP)
- Behavioral displacement: behaviors were not consistent with organization's objectives (increasing sales without generous discounts and customer complaints and false shipments)
- An over-emphasis on measured results (delivering 97% of AOP sales and profits)