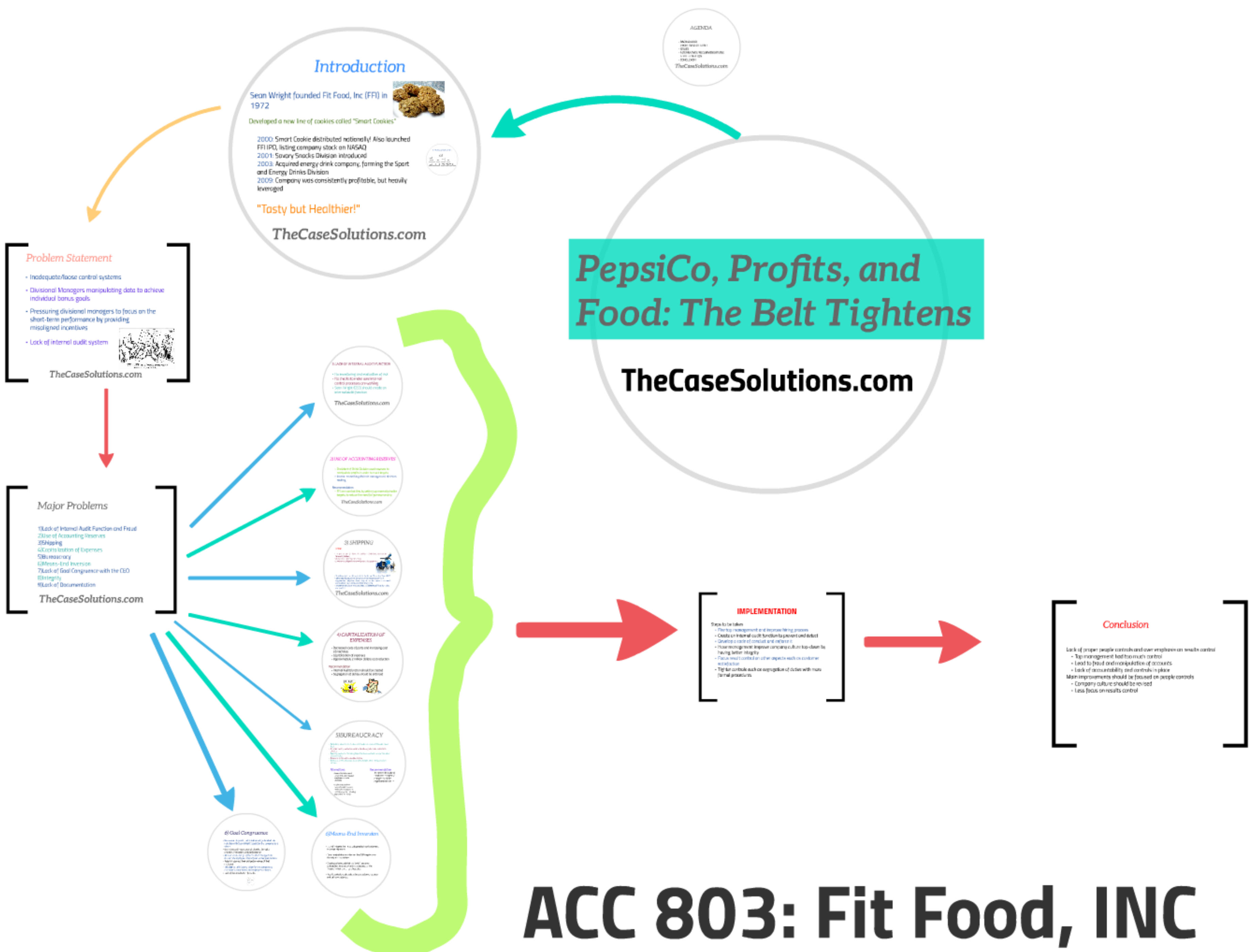

PepsiCo, Profits, and Food: The Belt Tightens
TheCaseSolutions.com
Introduction
Sean Wright founded Fit Food, Inc (FFI) in 1972
Developed a new line of cookies called "Smart Cookies"
2000: Smart Cookie distributed nationally! Also launched FFI IPO, listing company stock on NASAQ
2001: Savory Snacks Division introduced
2003: Acquired energy drink company, forming the Sport and Energy Drinks Division
2009: Company was consistently profitable, but heavily leveraged
"Tasty but Healthier!"
TheCaseSolutions.com
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
TheCaseSolutions.com
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
TheCaseSolutions.com
TheCaseSolutions.com
3) SHIPPING
TheCaseSolutions.com
5)BUREAUCRACY
IMPLEMENTATION
Steps to be taken
Conclusion
Lack of proper people controls and over emphasis on results control
- Top management had too much control
- Lead to fraud and manipulation of accounts
- Lack of accountability and controls in place
Main improvements should be focused on people controls
- Company culture should be revised
- Less focus on results control
ACC 803: Fit Food, INC

PepsiCo, Profits, and Food: The Belt Tightens

AGENDA

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

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"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
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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 i n 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)