Turnaround

PETER CHARLES LIMITED

Delivering rapid results in difficult business situations.

In this issue:

THE ACCOUNTING FACTORY ERA

ONE OF THE MAJOR CORPORATE TRENDS over the last ten years has been the development of shared service centres (SSC). This has been driven by internationalisation of business and the emphasis on business efficiency metrics. Modern ICT technology has enabled the creation of SSCs which can deliver process cost savings of 30-60%.

Corporates are transferring accounting, payroll and HR into SSCs. Historically such services were provided in multiple locations, dedicated to one or two specific business processes.

The shared service centre concept first took off in the US, where it is now widely, but not universally, developed. In Europe, UK, Dutch, Irish and Nordic-based companies have been the early adopters of the SSC. Peter Charles is now spending an increasing amount of time helping FTSE 100 companies make the most of their SSCs, in particular on the management accounting function. The key issue for him is that an SSC should be perceived as an accounting factory, a transaction processing plant. It takes raw materials of invoices, receipts etc., and, through an agreed and established procedure produces management

Peter Charles,
Managing Director, Peter Charles Ltd

accounts. Management accounting function should no longer be carried out as a cottage industry. It needs to match the scale and sophistication of the whole organisation. The successful implementation of a SSC results in an improvement in the consistency and quality of the financial information produced.

Every organisation is different and so will organise its SSC differently but all corporates need to get the SSC working properly – and that challenge should not be underestimated.

Every organisation has to reach its own decision on where to draw the boundaries on the work which the SSC performs and which local staff retain. However, there is one golden rule: Peter Charles said: “IT strategy experts assert that any technology interface works best where the least amount of data has to cross. This logic works equally well when applied to the interface between a SSC and the rest of the company.

“The two sides of the interface represent a natural separation of duties. Both parties would have to introduce or overlook mistakes or inaccuracies for the error to remain”.

The key part of the interface element is that both sides should represent a natural check on the work and data that flows between the two without introducing a specific checking process.

If responsibility for the accuracy and sense of the data is given to the sender and the receiver, then an in-built inherent checking process can be established at zero or minimal additional cost. So the key for where to place the boundary is where the least amount of data would have to cross between the interface; that is, where there is a natural segregation of duties so as to effect an in-built control and where both sides of the interface can be a check on the work in progress.

Peter Charles wins interim manager recognition

INDEPENDENT MANAGEMENT CONSULTANT PETER Charles, has been highly commended in a competition to find the UK’s best Interim Manager.

Peter’s commendation, announced in June, came in the Interim Manager of the Year sector of the One In A Million Award given annually by the Recruitment & Employment Confederation (REC). The award is part of National Temporary Workers Week, held each year in June, to mark the contribution made by the UK’s interim managers and contractors.

Peter was awarded the commendation for his specialist work in “fixing broken finance departments”

The judge for the Interim Manager of the Year sector commented that he liked the notion of Peter “fixing” companies, and the fact he was not competing with

continued on page 3

Trying not to make a meal of it

INCREASING BUSINESS COMPLEXITY CAN LEAD TO MANAGERS BEING UNSURE WHERE EXACTLY THE PROFITS ARE COMING FROM. BUT IT IS POSSIBLE TO CLEAR THE CONFUSION.

Food for thought:
turning knowledge into profit

EVEN THE BEST RUN BUSINESSES CAN HAVE problems working out which are its most profitable customers and why. One recent Peter Charles client is in a strong position providing inflight meals to many of the world's leading airlines. However it decided it needed to ask questions about its overall profitability and the margins on individual contracts.

As part of an ongoing strategic review, the company is investigating which parts of its business are most profitable and how it can raise overall levels of profitability. It turned to Peter Charles – who has worked as a consultant to the airline industry sector before – because it wanted expert advice and practical help in both assessing the financial and management information systems that produce the numbers, and examining the nature and quality of the earnings and profitability of individual airlines.

Although the company does possess good business systems, they do not allow for the detailed customer profitability analysis which directors and managers believe they require.

Peter gathers much of his information by listening to, and talking to, a wide variety of the customer's staff – including, naturally, many in the finance department at all levels.

One of Peter's great strengths is his experience at looking at financial and management systems. However he does more than systems analysis, he listens to the stories behind those systems. And he never accepts at face value what he is being told. That doesn't mean he doesn't believe what he is hearing, but often the problems which people believe they have are only the tip of the iceberg and beneath are different, underlying problems that need to be addressed first.

From Peter's work with the client's directors and staff it was clear in the early stages of the assignment that the 'rules of thumb' that the directors and managers use to run the business may have to be revisited. Every company uses these rules of thumb. Sometimes the rules over complicate the business, at other times they over simplify it.

At heart the company is an astonishingly successfully run business, getting the right food and services onto the right aircraft, often overcoming challenges on the way.

Clearly, the business success has to be built on and Peter is looking closely at the client's Management Information System (MIS) which may be capable of being modified to produce the required profitability information in a timely and efficient manner.

If that is the case, then MIS will be able to provide presently missing margin information and be a useful resource when the company bids for more work, either with existing, or with new, customers. Peter helped to establish that the company is a highly sophisticated, complex business which is delivering a good quality service to its customers.

If the internal perception of the business model can be changed so that the complexity of the business can be better understood and appreciated, then it should be possible to turn increased knowledge into higher profits.

3Es win for FTSE 250 client

HOW TO ENSURE A SHARED SERVICE CENTRE IS GOOD NEWS

A LEADING EUROPEAN MEDIA company, specialising in the production of magazines and the organisation of business events and conferences, recently hired Peter Charles. A FTSE 250 company, it also owns radio and TV stations and provides specialist interactive media communications services across a wide range of media platforms. With turnover in excess of £1bn a year, the company needs an efficient accounting system.

It recently consolidated all of its accounting function in a Shared Service Centre (SSC) and asked Peter Charles Limited to work with it to ensure the systems and processes were working properly. Peter Charles worked as SSC Director, leading the SSC team and ensuring that the objectives were clearly understood and communicated. To be considered successful the SSC needed to be:

* effective – to do the right things
* efficient – to do things right
* economic to do things at the right price

The effectiveness of the SSC was judged by whether it was providing measurable financial quality control; plus it needed to work with the Divisional Finance Teams to ensure the numbers were understood across the business. It needed to be able to support the group strategy of bolt-on acquisitions by taking on the finance function of the acquired entity.

In terms of efficiency the SSC had to be set up to provide accurate and timely postings of all transactions as well as a timely completion of transactions (such as paying creditors and collecting receipts from debtors). It also required a disciplined and well understood month-end reporting timetable.

The SSC had a defined economic remit with a clear budget and productivity targets. These targets included continuous improvements, such as falling cost per transaction, and the understanding that bolt-on acquisitions would be supported within the existing resources.

The SSC also agreed a series of Key Performance Indicators (KPIs), which were designed so that all those who worked at the SSC, and those elsewhere in the company could understand the expected level of service.

Peter Charles helped the FTSE 250 SSC to achieve its objectives. Indeed the programme was so successful that even the external auditors formally recognised how the shift to a fully working SSC had materially helped to improve financial control.

AIMING FOR A HEALTHY BALANCE

IN A RECENT ASSIGNMENT, PETER CHARLES worked with the senior management of a major NHS Hospital Trust to control its spending. As with many hospitals, Deficit Busting plans had been put in place to reduce budget deficits. Peter is not a medical expert but he does know about putting turnaround plans in place and it was those skills he brought to the NHS.

Peter's role was not to decide how to bring the budget back into balance – that was firmly the job of the Trust's directors – rather it was to review the plans and ascertain how achievable they were. The review looked at the strategy to see the overall process was under control. Peter established that the current projects were unlikely to bring in the financial results the Trust wanted. The next step was to see whether the Trust could bring the off-target projects back on track, as well as creating other projects to make up the shortfall.

continued from page 1

Peter Charles wins interim manager recognition cont.

permanent employers. "I like the fact he does not come across as an adviser but as someone who rolls their sleeves up."

Peter said: "I am honoured and excited to win the award. It is recognition of some of the high level consultancy assignments I have been working on over the past year, working with some of the UK's top organisations across a variety of sectors."

An associate member of the Society of Turnaround Professionals, Peter uses his change management skills to the maximum in challenging consultancy assignments. The work invariably revolves around complex financial reporting and systems issues, as well as major human resources challenges.

He can manage large teams through significant change; assess where people can best be deployed and quickly re-energise departments and teams.

PricewaterhouseCoopers' partner Richard Farr, said: "I have known Peter for years and have worked with him several times. I introduced him to the PricewaterhouseCooper's Turnaround Panel of which he is now a member, joining over 150 other experienced executives who have "done it all before" and can help out companies in difficult situations. I introduced Peter to the Panel because I know the type and quality of the professional work he does. He thoroughly deserves this recognition and I congratulate him."

Is this the winter of our discontent?

PETER CHARLES WONDERS WHETHER CORPORATES ARE GOING TO FEEL THE CHILL AS EXPERTS PREDICT THE RECENT BENIGN CREDIT CYCLE IS SOON TO TURN NASTY.

For a while, corporates have been able to take advantage of a wall of the money to finance – and often to refinance – at margins that banks dislike. But is that about to change? Chancellor Gordon Brown has declared himself satisfied with a Goldilocks – neither too hot nor too cold – economy. However not everyone agrees with the Brown view. One well-known high profile financier says that credit is about to enter a bear market. Rating agencies are starting to warn that more companies are experiencing financial difficulties.

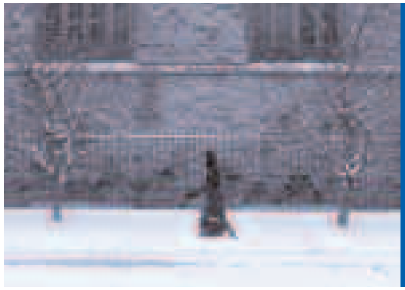
Against a backdrop of low credit spreads and increased competition in the lending and credit risk business, there has been a large pool of debt finance available to the leveraged buyout (LBO) market. A lot of money has been chasing takeovers via the LBO world and we have seen multiples of debt to underlying cash flow (essentially EBITDA) rising.

From an old-fashioned perspective, some of this lending seems strange. Private equity players take a large dividend out of an acquisition as a way of enjoying a speedy return and finance the payment by borrowing the money through leveraging up the acquired entity. That surely is bizarre.

The financial markets have become more sophisticated, inventing financial instruments which sell on loans to other parties. Credit default swaps (CDS) of collateralized debt obligations (CDOs) are instruments that give investors a route to adding or hedging risk exposure to pools of debt that are sold in tranches with varying risk profiles. The swap is insurance against default by the CDO.

It is now possible for finance directors to have layers of debt – senior bank loans with fixed or floating charges, bonds with/without security and covenants, mezzanine and convertible bonds and loans. Corporates don't know who exactly owns their balance sheet. Not good news if they need to restructure.

Some argue that all these instruments plus the sophisticated capital market ensures that risk is diffused so there won't be any financial meltdown. Not everyone is so relaxed, particularly from the corporate perspective. Warren Buffet, stock market guru, declared that derivatives and the trading that went with them were time bombs, both for the parties that deal in them and the economic system.



Financial instruments: could CDOs and CDS help to usher in a financial winter?

That's sombre stuff. Buffet's assertion is that this soup of financial instruments does not lessen the risk but potentially increases them. It is a game of financial musical chairs which could have consequences if the music stops, even for businesses which don't think they are part of the game. In the last newsletter, we asked whether the work of a Russian economist Nikolai Dmyitriyevich Kondratieff (1892 - 1938) told us anything about our current situation. He described the economic wave cycle which goes through four distinct phases: beneficial inflation (spring), stagflation (summer), beneficial deflation (autumn), and deflation (winter). Since, the last Kontratyev cycle ended around 1949, we have seen beneficial inflation 1949-1966, stagflation 1966-1982, and beneficial deflation 1982-2000. According to the K wave theory, we are now in the (winter) deflation cycle which should lead to depression.

Turnaround is designed, written and produced by Bizmedia for Peter Charles Limited

Designer: Dana Kidson

Writer/Editor: Peter Williams
peterw@bizmedia.co.uk

PETER CHARLES LIMITED

Tel: +44 (0)7973 193 855
Fax: +44 (0)7970 095 281
Email: peter@petercharles.com
Web site: www.petercharles.com