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**IAB Solutions LLC**

# CPG Broker Audit- Case Study

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Old World Pizza Company

# Case Study – Old World Pizza Company (OWP) Broker Audit

## Company profile

OWP is the leading branded frozen pizza manufacturer in the United States and Canada.

- 2009 Revenue 2009- \$800 million. Estimated Trade Marketing budget- \$100 million
- Distribution Channel: Grocery, Mass and Club
- Utilizes an on-line Trade Marketing and Promotion planning and budgeting system
- Employs single Broker with National reach charged with the responsibility to research and resolve Deductions
- Ultimate responsibility for Deduction management and resolution place in the OWP Customer Financial Services group (Credit and Collection)

## Business situation

There were several strategic business reasons OWP wanted to initiate these Broker Audits. They include the following:

- OWP wanted to ensure their Finance and Sales policies and procedures were being consistently followed. They wanted to create accurate accounting for promotions, monitor spending and make sure that it was not excessive or wasteful.
- Create 'bulletproof' documentation of 'bill-back' spending through the Deduction Clearing process to satisfy their Internal Auditors and SOX requirement. At the same time ensure that Marketing had accurate spending information, coded correctly to each promotion, to be able to evaluate the effectiveness of the promotions.
- Because OWP used asset based financing it was imperative that A/R contained no receivables subject to recourse. Valid deductions needed to be identified and cleared faster while all invalid deductions needed to be properly supported, charged back and collected as fast as possible.
- OWP also wanted to be sure that the Broker was collecting the maximum possible amount of invalid deductions. Not clearing deductions for the sake of clean reporting and meeting time lines. It was also expected that Broker Audits would significantly improve Broker responsiveness to the Credit, Customer Service and Accounts Receivable functions.

## Technical situation

A detailed evaluation of OWP's recent past and current technical situation uncovered the following technical challenges during the evaluation of its policies, procedures and broker execution

- Originally used JD Edwards and Seibel but both were configured in a less than optimum manner. The configuration problems continued to plague OWP until OWP switched to Gelco from Seibel and ultimately from JDE to SAP.
- OWP relied on single national brokerage to represent them from a sales and deduction resolution standpoint. From an efficiency standpoint the Broker implemented an imaging system which enabled them to stop maintaining paper files. This operational change was implemented without consultation with OWP.
- Also adding to the challenges and leading to a feeling of uneasiness on the part of OWP were 1) the acquisition of the Gelco system by Adesso and 2) the purchase by OWP of a new operating company, Idaho Frozen Potato Company, which previously had used a different broker.

## Solution

IAB's solution for OWP was a fully managed annually recurring Broker Audit of the 'Hub' processing offices. Special focus was placed on offices which did not track with the others in regard to deduction resolution statistics.

- The first step in Implementation was to determine the scale of the Audit Program. IAB along with the OWP chose the largest Brokers offices for the first year, along with selected, problem Broker offices, as well as the Broker offices responsible for a handful of problem customers. Next we determine the frequency of audit program, which was three per month based on how many offices we have to cover in the year.
- The audit program and goals are then communicated to the selected Brokers Work with Sales and Notify the Broker force of the audit program Settled deductions data is generated and report of open deductions pending resolution is included when determining the appropriate sample size to request.
- The sample request was always created and submitted prior to the audit, with several 'surprise' deductions requested and reviewed during the actual audit. Worksheets were set up and completed with as much detail from the Event Planner prior to the audit with space to record findings. Previous audit points were re- addressed.
- Again working with OWP, IAB determined what needed to be audited to ensure the strategic business reasons were addressed and the goals of the program were meet. This included the following: IAB reviews compliance with established policies and procedures; specifically reviewing open and closed deductions and payments to customers by checks verifying that valid deductions are not claimed multiple times.

The steps necessary to create and conduct this Broker Audit program were not complicated. The program was divided into three phases, 1) program planning, 2) audit execution and 3) reporting and corrective actions.

- Phase 1 was organized and managed by IAB with significant involvement of OWP Finance and Sales administration
- Phase 2 was handled completely by IAB working with the Brokers.
- Phase 3 includes minimal involvement by OWP. IAB completely handled the reporting and corrective action follow-up with Broker and as necessary involves the OWP Regional Sales management, Sales administration and Finance.

Resources from OWP used to conduct the audit include OWP Sales and Finance policies; Event Planners and Budgets for the period to be audited; the Audit sample pulled for auditing from Settled Deductions, Settled Post Audit Deductions, Open Deductions and Accounts Payable checks when made payable to Customers. Resources required from the Broker for onsite audits include:

- A suitable work space
- Documentation maintained (files, paper or imaged, expected to contain)
  - Contracts
  - Proofs of Performance
  - Customer claims or invoice
  - Customer remittance
  - Original invoice, Sales histories
- Broker sign-off / authorizations / approvals
- Comments / emails regarding exceptions

## **Benefits**

Establish clear understanding of and compliance with Your Company's Finance and Sales policies and procedures. Never assume that your Broker knows your companies Deduction Resolution Policies and Procedures. Broker Audits are an effective 'template' for on-going communications. They significantly improve Broker responsiveness to the Credit, Customer Service and the Accounts Receivable functions. Specific significant benefits include:

- Created 'bulletproof' documentation of Deals, Promotions, and Sales Agreements, as well as valid 'bill-back' spending through the Deduction Clearing process. Imaging systems are the leading edge when it comes to documentation, but without your companies clearly spelled out requirements its value is questionable. More than ever complete consistent documentation is the key to protecting your company from invalid deductions and is clearly an area where a Broker should be held responsible.
- Cleared Deductions faster while denying all invalid claims. Today it's all about balances, how to keep your deduction balances low. Broker Audits help you accomplish this in 3 ways. 1.) Clear valid deductions faster with better staffing, better documentation, and better communication; 2.) Collect invalid deductions faster by proving your case faster with detailed documentation. 3.) Reduce incoming deductions, by NOT being a target for retailers who take the path of least resistance when it comes to deductions.
- Satisfied internal auditors and SOX requirement. Documentation of Trade Marketing Spending through deductions is just as important as documentation of payments made by check through A/P. In addition, faster resolution of both valid and invalid deductions provides a more accurate picture of Accounts Receivable and Sales Revenue.
- Created metrics to measure the effectiveness of the various Broker locations through the use of a Broker Scorecard. This enables year-on-year tracking of improved performance, meaningful management reporting and corrective action follow-up based on detailed accurate statistical reporting.

# Worksheet

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Client approval: Yes \_\_\_\_\_ No   x   \_\_\_\_\_

Note whether your case study needs to be ready in time for a specific event:

Date: 1/22/2010 \_\_\_\_\_ Event: \_\_\_\_\_na \_\_\_\_\_

## Your company information

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## Customer profile

<b>Customer name</b>	Old World Pizza Company
<b>City, state, ZIP Code</b>	Pittsburgh, PA
<b>Industry</b>	CPG, Food
<b>Number of employees</b>	6,000
<b>Annual revenue</b>	\$800 million