

Integrating a New Business into the Financial Planning Process at Unilever

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Abstract

A new Controller in this case was recently hired by Unilever, a global 200 consumer products organization, to integrate a newly acquired business into Unilever's financial planning process. The newly acquired organization was a publically held company and had its own existing financial processes and procedures. Financial planning and reporting are major company activities and finance and accounting professionals are expected to "get it right." The purpose of this case study is to get students to think about the difficulties and challenges of revamping existing financial processes and procedures and alert them to areas where other financial professionals have encountered difficulties so they can benefit from their experience.

Keywords: Acquisitions, Capital Planning, Financial Planning, Inventory Valuation, Key Performance Measures

I. Background Information about Unilever

Unilever is well known around the world for its brands. On any given day, two billion people use Unilever products to look good, feel good and get more out of life. The company manufactures more than 400 brands focused on health and wellbeing. Many Unilever Brands, Dove, Axe, Ben and Jerry's, Lipton, are respected around the world and have become household names. The finance team developed a financial planning process to support their role in driving the success of these brands and others.

Unilever achieved a strong set of financial results in 2011. Underlying sales growth in 2011 was 6.5%, up from 3.5% in 2009, while 60% of Unilever categories are growing share despite challenging market conditions and a difficult economic climate. Its strategy is to focus on volume growth and strengthening the competitive position of the company's brands. Commenting on the company's performance, CEO Paul Polman said: "In 2011 we have made significant progress in the transformation of Unilever to a sustainable growth company despite difficult markets and an unusual number of significant external challenges. Our overall performance was driven by our growth in emerging markets and the Home Care and Personal Care categories. We invested heavily in our brands and exit the year with positive momentum. In Foods, whilst price increases have impacted volumes, we have grown in line with our markets and gained share in many of our key businesses."

In the past several years Unilever also enhanced their position in attractive, high-growth categories and purchased a portfolio of desirable brands through company acquisitions, joint ventures or Greenfield investments.

II. Case Context

You have been recently appointed to a start up project as a result of one of the activities mentioned above. You are facing demands on your time from your colleagues, boss and subordinates. At the same time you are receiving requests from headquarters and specialized support functions including Tax, Treasury, and Insurance. You constantly have to prioritize and there is danger that important tasks get delayed, or worse, never get done. Since Financial Planning and Reporting are one of the major activities you are responsible for you must quickly familiarize yourself with these Unilever financial processes. You are given nine areas of importance to focus your activities. The areas are:

1. Global Standard Chart of Accounts (SCOA)
2. Local Company Chart of Accounts
3. Financial Reporting Routine
4. Key Performance Measurements

5. Financial Budgeting System
6. Capital Planning Process
7. Inventory Valuation and Cost of Goods Sold
8. Sarbanes Oxley Considerations

For each of the activities above you are given the objectives and the rules. You must identify the list of actions required and identify any potential obstacles or challenges you may face.

1. Global Standard Chart of Accounts (SCOA)

Objective

Unilever's global chart of accounts is a general ledger accounting system that allows for the accumulation globally and regionally of financial information. This global chart of accounts is a global mandate. Migration to this global chart of accounts is only recommended once you have a fully understanding of your current systems.

Rules

- You must implement and follow Unilever's Standards Chart of Accounts (SCOA)
- You must ensure implementation and accommodate local, legal, and fiscal requirements

Questions for Discussion

1. What reference documents should you obtain?
2. What are the key elements of your plan to implement the SCOA?
3. What are some obstacles or challenges you may face in trying to impose a global SCOA?
4. How do you identify if additional resources are needed?

2. Local Chart of Accounts – (LCOA)

Objective

In some countries, there are rules and regulations that dictate the local chart of accounts must be maintained. If the accounting professionals do not maintain the original set of accounting records, the company may be subject to criminal proceedings and/or significant fines or penalties. The accounting professional must become familiar with the local chart of accounts in order to properly prepare financial planning and reporting results. The accountant must also map the existing chart of accounts with Unilever's SCOA.

Rules

- Realize that, in some countries the LCOA must be maintained
- You must comply with both Unilever and local regulations and standards
- You must contact local auditors to determine local reporting laws and regulations and their impact

Questions for Discussion

1. How do you ensure accounting treatment is in accordance with Unilever standards and local regulations?
2. What is the best way to obtain an understanding of local standards or regulations and the adjustments required to convert the results to Unilever's reporting and accounting principles
3. How should you validate the existing trial balance?
4. How do you identify the key personnel who are familiar with the political aspects of local regulations? Why is this individual crucial?
5. How do you know that the local statutory results reconcile to Unilever reported results?

3. Financial and Management Reporting Routine

Objective

One of the responsibilities of a financial manager is to report accurate financial results within predetermined deadlines while minimizing the disruption to the company and your staff.

Rules

- You must ensure all Management and Financial reports are submitted accurate and in a timely manner. This includes the Balance Sheet, Income Statement and Cash Flow Statement.
- You must ensure all reported financial results reconcile with local financial records

Questions for Discussion

1. What are the important issues in determining financial and management reporting requirements?
2. How do you plan to ensure the deadlines are met?
3. Who are the important groups to liaise with if there are any reporting issues?

4. Key Performance Measures

Objective

For each of the businesses' critical processes identify a Key Performance Measure or Indicator. You must establish a reporting routine and definition for each Key Performance Measure.

Rules

- You must ensure that all critical processes are identified and that each has a key performance metric
- You must be able to identify how you will collect and report each key performance metric

Questions for Discussion

1. How do you identify what is an important business process?
2. How do you know the information you are reporting is helpful and who you should distribute the key performance measure to?

5. Financial Budgeting System

Objective

One of your responsibilities is to establish budgets that are an accurate but challenging goal for the business to achieve. You must ensure that the budgets are a reflection of managements' goals and that everyone on the organization feels that they have participated in the budget process and own the budget.

Rules

- Assumptions must be realistic
- Local management must participate in and own the budget

Questions for Discussion

1. Identify several approaches to budgeting and recommend what are best practices in setting an initial budget
2. Identify best practice in establishing budget variances
3. What is the best way to ensure the budget is kept up to date?

6. Capital Planning Process

Objective

You must ensure that the capital planning process operates effectively and that capital purchases are properly included in the budget

Rules

- You must prepare an accurate capital expenditure and disposal proposal in order to execute a capital purchase
- You must ensure that capital purchases are properly reflected in the budget

Questions for Discussion

1. What are the key steps in ensuring you have the information to properly prepare a capital budget and who should be consulted?
2. What are some guidelines you should develop to determine if capital expenditures are reasonable?

7. Inventory Valuation and Cost of Goods Sold

Objective

You must establish an inventory valuation system and methodology for estimating cost of goods sold.

Rules

You will not be expected to develop a sophisticated method for estimating cost of goods sold but there must be a method for developing a cost of goods sold estimate as quickly as possible

Questions for Discussion

1. What are some ways to obtain an understanding of the existing inventory valuation methodology?
2. Why is an accurate an inventory valuation methodology critical?

8. Sarbanes Oxley Considerations

Objective

You must ensure there are adequate internal controls in the business and Sarbanes Oxley rules are established

Rules

The CEO must sign a confirmation that Sarbanes Oxley rules are followed and a system of internal controls is in place and controls are adequate

Questions for Discussion

1. What do you do if controls are not adequate?
2. How should you prioritize the issues to be addressed?