

第一题 50

To: The board of Maddy

From: Accountant

Date: 1 September 20X5

Subject: Performance measurement and transfer pricing issues

Introduction

The report is to evaluate whether the current performance report based on quarter is fit for the purpose and discuss the difficulties and the advise on the problem of the data about cleanliness with the recommendation and evaluation of the possible alternative methods to assess the cleanliness. And also evaluate the franchisee's transfer pricing proposal.

(1)performance reporting

Gross profit margin

The report has list past three years data and count each years gross profit margin which is good to assess the performance of the cost control of Maddy. The last year's gross profit margin of Maddy's owned restaurants is much lower than the past few years which may cause the fake situation that 20X5 has performed much better than 20X4, but acutally is still lower than the 20X3 and 20X2. So the trend assessment may be more fair to evaluate the profit performance for the recent years which can show the board how the past experience and foresee future development of the Maddy and give the strategic view of the whole picture.

The franchise restaurants maybe not suitable to use the gross profit margin to evaluate the performance as the franchise restaurants is at the start stage of the development and the cost will cost a lot and show a bad situation which can not show the future develop as the Maddy used to develop quickly since the reputation has build while the new franchise restaurants open in the neighbouring country where Maddy brand has not widely recognised. So the indicates need to reflect the potential ability to increase the shareholders value in the long run which the EVA maybe more suitable which deduct the influence of the one-off event and show the truly development chance of the business.

The whole company's data seem useless as the bad behaviour in the franchise restaurants cause the whole performance become bad and give no value for the shareholders to evaluate. The split showing for the owned and franchised reataurant is a good way to show to the shareholders how diffierent part of the business can give the value for the company.

Quarter data

The quarter data to list on the report seem has no comparasion as the different quarter can not be compared because there maybe season reason to influence the revenue for the onwed restaurants and set up cost happened only in one quarter influence the franchise restaurants. The quarter data can be compared with the last years's same quarter so the comparasion can be more reasonable and suitable to show the years' growth.

ROCE

The note for the data is good for shareholders who are not in the financial area to understand as some financial ratios maybe hard to realise. But the ROCE has not list the explanation

which may influence the read of the report. And the ROCE can be shown to measure the profit performance of the Maddy which may using the whole company's data, can not reflect the main business's performance and with the franchise data which may cause the behaviour bad which is not fair for the managements and employees of the owned restaurant if the ROCE is used to assess them performance. The EVA maybe more suitable for the report as the non-controllable and external matters are excluded and show the true behaviour of the business.

Non-financial data

The report has financial and non-financial data which is good to show the performance in all aspects and consider the facts beside the traditional part. The number of restaurants are satisfied one of the supporting aims for the overall objective which is to increase the number of restaurants. This indicates is fit for the company's objective but can not show the number of the restaurant truly support the business and the lack of finance. The report not only show the bad performance but also need to show the resources the company need in the expansion which can give the shareholder signal that for the long term development the adequate finance is needed.

The cleanliness and food delivery time is a good way to evaluate the competition advantage of Maddy as the two indicate show the cleanliness and customer service which is the support for the reputation of Maddy. The delivery time's standards and measure method has not given which makes the result not believable, so the report need to give more notes for the number listed.

The second supporting aims for the overall objective has not shown as the like-for-like revenue growth of at least 15%, the normal revenue growth has not shown, not to mention the growth achieved by means. So the report still need to improve to meet the requirement of the shareholders.

(2) minimum performance levels: cleanliness

Difficulties and advise

The customer survey maybe not objective as some people unwilling to choice 1 and 5 these extremely numbers so make the result not true. So the standard for the survey question need to be clarify and make sure the question easy to understand with the choice clear to distinguish which help the customer fill the survey in convenient time.

The customers fill the paper just one overall score which is not enough, the cleanliness can not show by one number, because there are many aspect for the clean, such as the package, floor, order place and the uniform of the employees. So the survey need to be more detail and clear to find out the best and worst place the restaurants have done.

The cleanliness in the kitchen maybe not be measured as the customer can only see the package and the hall, some place only employees can enter and the customer only see part of the restaurant which means the customer survey is not enough but also need more measurement to check.

Some people may for the free meal to anticipate the survey who may not eat in the restaurant or causally fill a number just to have the chance, so the limitation need to be set for the old customer and other controls.

The franchise only collates the survey response onto a spreadsheet without analysis which maybe too original so the franchise may need to analysis the score's reason and compare with past result to show the trend each quarter and solve the problem timely. And the summary send to Maddy next performance report seem too late, the summary need to be accumulated each quarter and send to the Maddy timely with the quarter result.

Alternative method

The chair cheif could evaluate the kitchen's cleanliness from time to time as he knows the places and the process of the cooking, the score form the chair chief would be convinceable.

And check the record for the clean employees to clean the floor and table of the hall will be reviewed with the inspection for the cleaning work to ensure the work carefully be done.

The food with package supplied every day could left one copy to test for cleanliness, and check every employee to wear uniform, hat and mask to ensure the process clean which also ensure the food safety.

Put a feedback with reward box in the restaurant or online entrance, if the customer discover unclean places could photo it online and get reward. And the employee could be required to responsible for a place each person with punish. In the system of this, the employee could take responsible for their own place and decrease the unclean behaviour.

(3)transfer pricing proposal

The franchise propose nearly market price as the transfer price is reasonable while there is no tariffs or administrative barriers so there is no extra costs through transfer and the franchise restaurant is owned by franchisee who may need autonomy to motivate themselves.

However, the market price need to be ensure the nearest equivalent products is evaluated on a reliable basis which considered the neighbouring environment which the market price applying in the perfectly competitive market.

The franchise restaurant is geographically close to Maddy's warehouse so the transport fees will be low and basically not more extra cost spend on the supply on the franchise restaurant with the basic cost can be decreased through the scale economy.

However, the exchange rate risk need to be considered and the market competition also need to be investigated before the decision to ensure the transfer price can reflect the performance of the franchise.

Conclusion

The report has discussed the issues about performance report, minimum performance levels and transfer pricing of Maddy which show the system applying in the franchise restaurant has advantages and disadvantages so the further improvement is required for the Maddy's long term development.

第二题 25

(a)the benchmarking exercise

The suggested performance measures for benchmarking calculations are referred to the spreadsheet.

Operating profit margin growth

This can measure whether Morlich has reach the market level and discover whether the cost control is needed to be strict more. Morlich has negative growth in the operating profit margin while Shiel has 72.8% growth which show that it may not caused by industry but Morlich inside problem. Morlich may increase advertising cost followed others who want to enhance the brand strength without effect from it as the profit margin is decrease. So the Morlich could seen from this compare that the further more control on cost is needed.

customer satisfaction

The set for customer satisfaction is too huge and no detail with real effective measurement while we do not know how the number is calculate as 0.5 and what this number means. But this indicates is show the objectives and fit the company's main objectives but need to be set for standard to value. For example, the feedback system can be used to evaluate the service provided and products sold.

Product knowledge training spend per employee

This measurement is fit for the situation that many companies are increasing intellectual capital as employees are the key to enhance the brand strength which is the important critical success factor. Shiel spend on product knowledge training is twice as Morlich's and Morlich's cost of sales is 1/3 of Shiel's which shows Morlich has outcome from the training to reduce the cost. However, the managerial skills training spend is not involved in the measurement which cause the Morlich spend much lower in the mangement skill and cause the control on other operating costs is too high as the revenue of Morlich is 38% of Shiel's but the other operating cost of Morlich is 50% of Shiel's. The Morlich could change the measurement as total training spend per employee to consider involve management skill improvement.

Revenue per employee

The revenue per employee also emphasis human resources strength and Morlich is lower than Shiel. However, the market is to maximise the intellectual capital who maybe occupy part of the employee and to easily use total revenue split by total employee number may not show the output from these intellectual employees. So Morlich could using the number of empolyees who has masters degree or more upgrage to calculate what these employees bring to company.

After all, these indicates reflect the industry's focus on customer satisfaction and intellectual capital, but not involve brand strength and advertising spend to support the brand strength.

Spreadsheet

Suggested performance measures for benchmarking:

Operating profit margin growth	-20.6%	72.8%
Customer satisfaction	0.5	
Product knowledge training spend per employee(\$'000)	1.0417	2.1053
Revenue per employee(\$'000)	17.5	22.99

Workings

Operating profit margin (year ended 30 June 20X5)	0.10	0.28
---	------	------

(b)the current process

Business process reengineering is to fundamental change the business process and make improvement in performance measurement.

Too many supplying companies could lead mass and complex of work, the first work is to select the good quality supplier and make long term cooperation with few suppliers to enure the stable supply and easy process for receiving goods.

Morlich could enhance the relationship with the supplier and connect suppliers with Morlich to take order more convenience while using RFID technology to track the delivery and increase the efficiency.

The check and count process could replaced by automation and mechine to save human resources and avoid wrong counting loss and also increase the efficiency to short the time from goods arrived to notified customer which can increase the satisfaction of customer.

The missing product may be wrong counting by the administrator as some only one administrator work with many goods delivered from different suppliers. So the loss from wrong counting could be reduce if the high technology used and the customer inspection for quality of product also can be cut off by online check by upload product situation and due to the high quality, the return situation is happened rare low.

第三题 25**(a)building block model****quality of service**

The quality of the service is the basis to satisfy the customer requirement as the insurance company is operating by meeting customer's personal insurance needs for long term development. And more important is that Spiggie is directly "facing" customer through telephone to sell, the quality of service decide whether customer buy or not the insurance products. The selling volume eventually influence the revenue which show the performance of Spiggie. The after-call service investigate would be usefull to measure the quality of service which may be subjective so some extremely high and low score need to be investigate through voice record.

flexibility

As the insurance industry is light asset, the human will be the most "asset" for Spiggie. So the flexibility would be more important for the service industry as the human resource are the most important. The 3500 staff would be a flexibility provider and give flexibility service.

resource utilisation

The resource utilisation decide the effect of cost management and can evaluate the cost control system to find out where can be saved and where need to invest more as the Spiggie's annual payroll cost for operators is \$84m which is huge and Spiggie need to evaluate the output from the operators. So Spiggie could calculate the revenue per employees to evaluate resource utilisation and figure out the reason of significant increase or decrease.

innovation

The insurance competitor are do most of business online and occupy the new market, so Spiggie need to do differentiation way to provide innovation insurance products or using new technology to attract more customer to ensure the future develop. The revenue from new insurance products could be used to measure the innovation of Sipiggie.

(b)proposed executive share option scheme(ESOS)

benefits

The ESOS will attach employee with company and make employee's goal consistant with company's objectives which help the competence of employee used in the long term development way.

It will help employee to make effort to increase the share price and reduce the bad new's influence and catch industry's trend of share price to go up.

The managent would get more engergy to change the situation in bad news now and invest more now in operating center to solve the problem for the long run and consider decision in a long term way.

problems

The basic salary has no changed that some director may have no motivate to work hard to earn the extra income.

The option is for two years which may be too short to cause short sight as the director will window dress the report and using ways for decision that harm the long term benefit.

The scheme is only for board of director which only be 12 person but has 3500 staffs in telephone center who are the main team for the revenue, the scheme may has little effect without motivate most employees.

It can not solve the problem of poor service and long waiting time as the basic employee has not motivated by the scheme but may be complaint about the management get more reward and the work are done by them.