

## Interview on the topic of "Process and function performance management"<sup>1</sup>

### Interviewee:

Thilo Rieser, Head of Controlling & Finance International, Henkell-Freixenet

### Brief description of the company:

Henkell-Freixenet is the world market leader in sparkling wine production and a successful supplier of wines and branded spirits. With its broad portfolio, the sparkling wine producer sets high standards in quality and craftsmanship. Henkell-Freixenet is one of Germany's best-known family-owned companies, exporting to 150 countries and represented by 30 subsidiaries worldwide. In fiscal 2020, Henkell-Freixenet generated sales of approximately 1.2 billion euros and employed a total of 3.500 employees.

### The interview was conducted by:

Dr. Sebastian Möbus, Chief Operating Officer of the Centre for Performance Management & Controlling (CPMC) at the Frankfurt School of Finance & Management.

Letizia Credico, Research Associate at the Centre for Performance Management & Controlling (CPMC) at the Frankfurt School of Finance & Management.

## A Background

### Mr. Rieser, would you please introduce yourself and your area of responsibility at *Henkell-Freixenet* in more detail?

**Thilo Rieser:** My name is Thilo Rieser, I am 49 years old and have been working here at the company Henkell, now *Henkell-Freixenet*, since 2000. I started my management accounting career in-house as the management accountant focused on operative performance management of the Global Export business unit, then moved to the area of M&A in investment management accounting, and from there I have been involved in the Internationalization and Globalization of the Henkell Group for years. With the merger of Henkell-Freixenet in 2018, we created a holding organization for our group for the first time, in which I am responsible for management accounting, finance, group accounting, legal and insurance.

### How many employees are employed in your management accounting department?

**Thilo Rieser:** I am personally responsible for management accounting in the holding company. We currently employ six full-time equivalents (FTE) in this international management accounting area, and, thus, cover the functions of investment management, group reporting, business development and M&A. *Henkell-Freixenet* as a corporate has subsidiaries in over thirty countries and employs management accountants on plant level in the larger subsidiaries. Depending on the size of the company, this can be between one and eight FTEs. For the smaller sales subsidiaries, we have bundled the management accounting function in a central Shared Service Center Finance and Management Accounting at the headquarter in Wiesbaden, because we can also centrally handle these "customer-remote" services, such as finance and management accounting, which have nothing to do with the customer and the consumer, if the scaling of the subsidiary does not yet allow for our own personnel.

### What are the core processes in your company?

**Thilo Rieser:** We have combined the core processes of our business model in a process house.

- As a FMCG branded company, one of our core processes is brand management, also referred to as "brand-to-consumer". This includes sub-processes such as innovation management, brand management, product management and consumer management.
- Our second core process is customer management, also called "customer-to-demand". Here we distinguish between customers and consumers. For us, the customer is the retailer, in whatever form, i.e. the sales intermediary. The consumer is the end customer who buys from the sales intermediary. In the core process of customer management, we have essentially

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<sup>1</sup> This interview is an English translation of the German-held interview, originally published in Gleich, R. (Hrsg.). (2021). Prozess- und Funktionscontrolling – Grundlagen, Kennzahlen, Best Practises. Freiburg, Deutschland: Haufe-Lexware.

combined the sub-processes of account management, sales planning, field sales and customer service.

- Our third core process is supply chain management or "demand-to-supply". In this process, we combine the process areas of production planning, procurement, inventory management, manufacturing, finished goods, warehousing and delivery.

**Do the mentioned core processes have their own management accounting? If yes, which specifications are associated with this?**

**Thilo Rieser:** As explained at the beginning, international management accounting on the group level has separate tasks from operational management accounting on plant level. In the core process of brand management, the management accountant at the plant supports, for example, as a business partner in product launches or coordinates the evaluation in innovation management.

In addition, the management accountant at the plant carries out ongoing product cost management, marketing budget management and calculates brand contributions and brand value developments. At holding level, we take a much more aggregated view of the core process of brand management for the entire group. For this, we also look at brand development at Group level, of course. With a special focus on our core brands, which we group together in the so-called "House of Brands" in categories such as Global Icons, Global Stars, Global Prestige Brands and Local Icons, we pursue their achievement. Of course, we also have strategic objectives for each cluster. The core process of customer management is essentially supported by operational sales management, with tasks such as coordination of sales and condition planning, deviation analysis, determination of customer profitability, or the support in price management. For the core process of supply chain management, sales planning is the major indicator and control parameter of production planning. Otherwise, the manufacturing process itself is accompanied by management accountants, which track line performance, line productivity and determine variable manufacturing costs.

**B Current challenges of the business environment**

**What are the main external challenges your company is currently facing?**

**Thilo Rieser:** I would describe the social change in our society driven by digitization as the biggest challenge for us as FMCG brand owner. We need new communication channels for addressing consumers and have to ensure that we adapt our brand advertising to the new situations. In addition, we are feeling the pressure of consolidation on both, the procurement and marketing side, and in general, we are dealing with harvest-dependent and, therefore, volatile raw material markets. A key task at this point is, therefore, also to dedicate ourselves to direct end-customer marketing via e-commerce in the future, thus opening up the additional value creation stages for us.

**The Corona pandemic has certainly affected *Henkell-Freixenet*. What challenges has your company faced or is facing in relation to the spread of the Corona virus?**

**Thilo Rieser:** Producing and selling sparkling wine, wine and spirits is a relatively stable business in our saturated markets in which we normally operate. With manageable growth opportunities, there is therefore no need to fear for the existence of the business from one day to the next. However, the pandemic caused major upheavals. A stable and very predictable business model was suddenly no longer predictable. While on the one hand entire sales channels disappeared (such as gastronomy or travel retail), the increased domestic consumption in the retail sales channels of some countries also developed into a pleasing economic situation. There were, therefore, swings in one direction and in the other, which could take on very individual forms depending on the sales channel and country. In other words, we had to quickly regain the control capability at these early stages of the pandemic in the face of high forecast uncertainty.

In management accounting, we continuously tried to anticipate pandemic consequences and pandemic recoveries by means of scenario calculations, initially with classic V, U or L recovery scenarios. We then worked on countermeasures. In our business model, overhead cost -and budget management are the main possibilities for ensuring a certain earnings capacity in the short term. Initially, it was really a steering by sight. As the pandemic progressed, we were already addressing potential effects of pandemic recovery in the planning context.

**What requirements result from the challenges you mentioned for process and/or function performance management at *Henkell-Freixenet* and what changes has this brought about?**

**Thilo Rieser:** In the crisis itself, ensuring delivery capability in the face of not exactly predictable sales development suddenly became a central issue. Inventory-optimized production planning was

secondary. We deliberately kept higher inventories in order to avoid out-of-stock situations. Initially, we also did not know to what extent the supply chains of our upstream suppliers or also finished goods supplies from other international plants of our group would remain intact. In the area of marketing, the budgeted measures were scrutinized and realigned in line with the crisis, also with the aim of achieving a certain cost reduction. Another focus lied on overhead cost management and potential savings. In the financial area, we devoted more attention to receivables management, as we feared increased payment defaults - here the focus lied on the development of overdue and unsecured receivables.

## **C Process and function performance management**

**Does your company have a so-called process or function map that shows employees which processes and functions are the focus of their activities?**

**Thilo Rieser:** We have a Henkell-Freixenet process house in which all management and support processes are defined and described in detail. The process model is also a key component for our certifications.

**Are all the processes and functions listed tracked by management accountants, or are there also processes/functions where the performance management is taken over by others?**

**Thilo Rieser:** Management accounting is involved in all core processes. In the areas of management and support processes, management accountants are only marginally involved. Performance management in the areas of human resources, purchasing or marketing is carried out decentrally by the departments themselves.

**Which is the dominant view, functional or process performance management?**

**Thilo Rieser:** Definitely functional, because in the core processes of our process house we concentrate on support for value-adding functional areas and do not yet supervise the end-to-end process as a whole and advise and optimize in a value-adding manner. With the process house, we now have at least the possibility to view our processes coherently across different functions and areas of responsibility. Now, all we need is the organization for that: away from functional responsibility and toward process responsibility.

At holding level, we can, at least as far as functions and processes are concerned, as an internationally active group of companies with production sites in ten countries and sales organizations in over thirty countries, carry out internal cost and productivity benchmarks and, thus, describe the productive edge of the main processes of our business model. With the target cost framework then defined and relativized to sales volumes, we can allocate inefficiency well. This is what a subsidiary has to get by within our case. If it does not, then it has optimization needs, either by adjusting its cost framework or by making better use of the existing cost framework. In this way, we can set steering impulses to increase efficiency even without in-depth process performance management.

**How do you manage the interfaces between performance management of processes and functions?**

**Thilo Rieser:** The target cost framework, relative to sales, is the central parameter that we have kept constant over the years and whose compliance we constantly monitor. It gives us guidance on how we can design processes to remain competitive and maintain our earning power. Functional performance management supports the achievement of these targets in our operating business.

**How do you assess the efficiency and effectiveness of management accounting processes regarding process and function performance management in your company?**

**Thilo Rieser:** In our daily management accounting work, the focus is on the value-added contribution of our actions. We regularly scrutinize the benefits of individual management accounting sub-processes as well as the applied control parameters in terms of content.

**What measures do you use at *Henkell-Freixenet* to increase the effectiveness or efficiency of processes and functions in management accounting? What results were achieved by the measures you described?**

**Thilo Rieser:** To increase efficiency in the management accounting processes, we attach great importance to standardizing processes across the group as a prerequisite for the subsequent automation. A central database solution already enables us to automate standard reporting and the offer of a self-service BI solution to meet the information needs of report recipients on an individual basis. In this way, we want to improve the effectiveness and efficiency in the reporting process. We are also working to shorten the planning process and have reduced the number of forecasts we make during the

year. This goes hand in hand with an expansion of operational forecasting (sales and revenue planning) and its integration into the management accounting processes. In the future, we will replace a sales planning with operational, rolling demand planning, and, thus, avoid redundant work.

**Where would you see further potential for increasing the effectiveness or efficiency of processes and functions through management accounting at *Henkell-Freixenet*?**

**Thilo Rieser:** Definitely in the introduction of forecasting-based tools, in the replacement of largely retrospective methods and role understandings in the planning and forecasting processes. At the same time, we will also increasingly hold external data for these processes in a structured form and make it available for use.

**D Outlook**

**Looking into the future, what challenges will your company face in the future?**

**Thilo Rieser:** Through brand strength and innovative power, we want to continue to secure growth in frequently saturated sparkling wine, wine and spirits markets. Besides this, securing margins in the "sandwich position" between the consolidated market side and the volatile procurement side becomes of particular importance. In the future, vertical value creation potentials are also to be leveraged through e-commerce and B2C business models.

**In what direction do management accountants need to evolve to meet these new demands in their role?**

**Thilo Rieser:** For me, the areas of personality and mindset are important. We live in an era in which business models are changing rapidly, in which the management accountant must demonstrate a constant will to change, to develop and to improve. Adaptability to new challenges in changing business models are vital to the survival of employees individually as well as to the organization as a whole. We also need strengths in designing and implementing these change processes. In terms of methodology, I wish to have employees who are proficient in agile methods with which progress can be seen quickly. Digitization entails that the tasks in management accounting will become even more diverse and that the management accountant will have to master an increasingly broad repertoire of skills, from "data scientist" to "business partner" –this will, as a rule, only succeed with a specialization within the management accounting organization.

**Thank you very much for the very interesting conversation!**