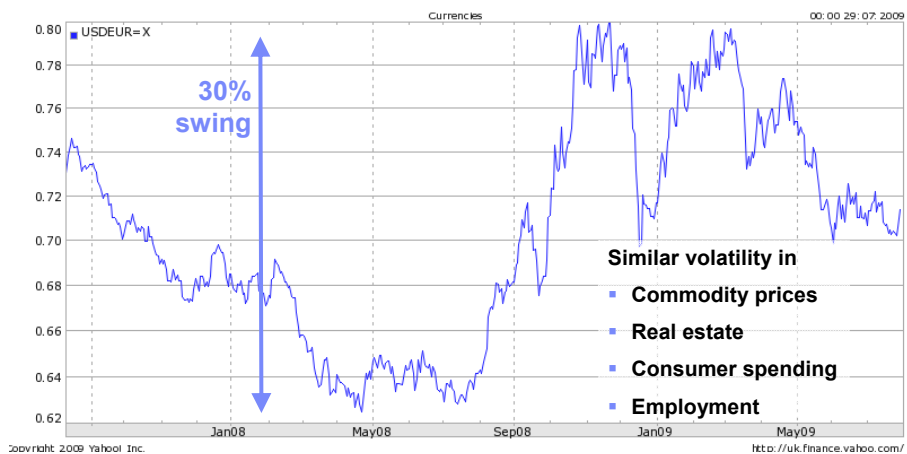


Best Practices in driver-based planning


Stephen Brook
Manager, IBM Cognos Innovation Center

Volatility and Uncertainty are Now "Business as Usual"

EUR/USD - Last 2 Years






Information Management 

Could we have been better prepared?

- Why didn't we have **fast, relevant information** that would have enabled us to respond more quickly and effectively?
- Why didn't we see the **patterns, trends and forecasts** that would have enabled us to take the right strategic decisions?
- Why didn't we know which **business segments were creating value** and which weren't so we could better allocate our resources?
- And why didn't we know how to **cut costs without cutting value**?

Source: Jeremy Hope, 2009, "How Performance Management can help you to Navigate through Turbulent Times"





A balancing act

“During the quarter we started to see the positive impact of our **strict cost management** on our results, while continuing to focus on making Philips more efficient. I’m especially pleased that our **rigorous focus on cash** is increasingly paying off, highlighted by the fact that cash inflow from operations in the second quarter more than doubled due to **lower working capital requirements**. At the same time we **continued making strategic investments** to strengthen our company for the medium and long term.”

Gerard Kleisterlee, President and CEO of Royal Philips Electronics, July 2009

TIMES ONLINE

NEWS | COMMENT | **BUSINESS** | MONEY | SPORT | LIFE & STYLE | TRAVEL | DRIVING | A

Home | Business | Management

From The Times
July 23, 2009

Visibility becomes ever more crucial in business planning

Fiona McDermott: opinion
RECOMMENDED (1)

EXPLORE MANAGEMENT

House prices have stopped falling. Industrial production is rising. But economists predict that although the recession may not have

REDUNDANCY

“Providing better visibility of future forecasts, and enabling the board to develop alternative strategies in response to the market environment will give them a much better chance of coming out ahead.”

...com which found that 70 per cent of companies do not forecast more than a year ahead.

Understanding the basics

Why does this matter?

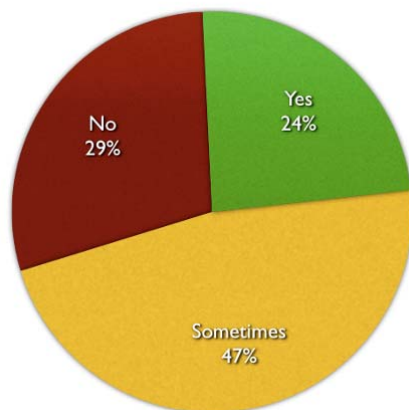
Source: <http://business.timesonline.co.uk/tol/business/management/article6729469.ece>

73% of surveyed companies need *more* than 3 months to complete the annual budget.*



* Hackett Group 2008

Only 24% are satisfied with the efficiency of the process



Is management satisfied with the efficiency of the budgeting process?

* Hackett Group 2008

„But the budgeting process at most companies has to be the most ineffective practice in management. It sucks the energy, time, fun and big dreams out of an organization. (...) And yet (...) companies sink countless hours into writing budgets. What a waste!“
Jack Welch, 2005



Discussion – Planning & Budgeting challenges

- Please describe some of the challenges you face and opportunities for improvement

- Examples from other companies include:
 - Cycle times
 - Labour intensity
 - Integrity of data
 - Number of iterations
 - Cross-functional visibility
 - Insight and linkage to strategy

Techniques for driver-based planning

Re-visit
'accountability'

Know
where you
are today

Know where
you're going

Focus on
the real
drivers

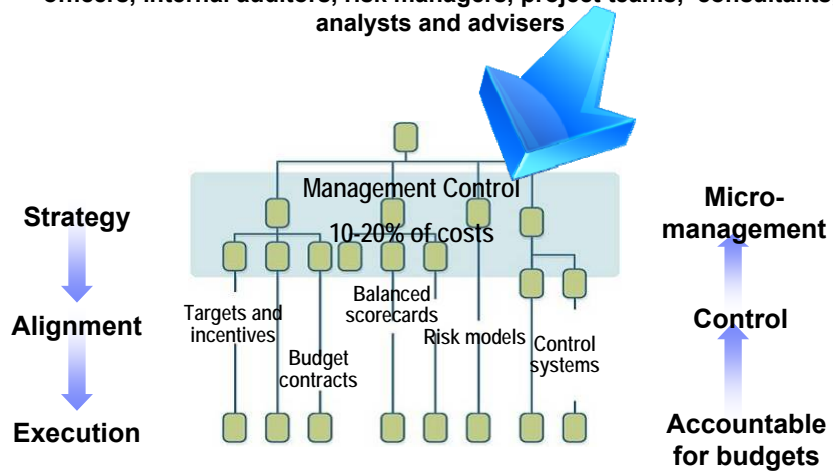
Core vs
discretionary
cost

Consider risk
and projects

Re-visit 'accountability'

Expenses have been growing in recent years

More... planners, target setters, inspectors, controllers, compliance officers, internal auditors, risk managers, project teams, consultants, analysts and advisers

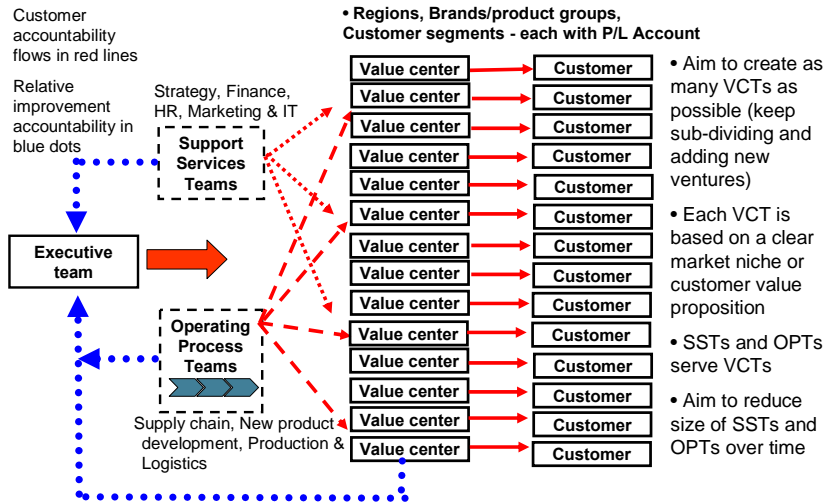


Source: Jeremy Hope, BBRT

It starts with a simple thing

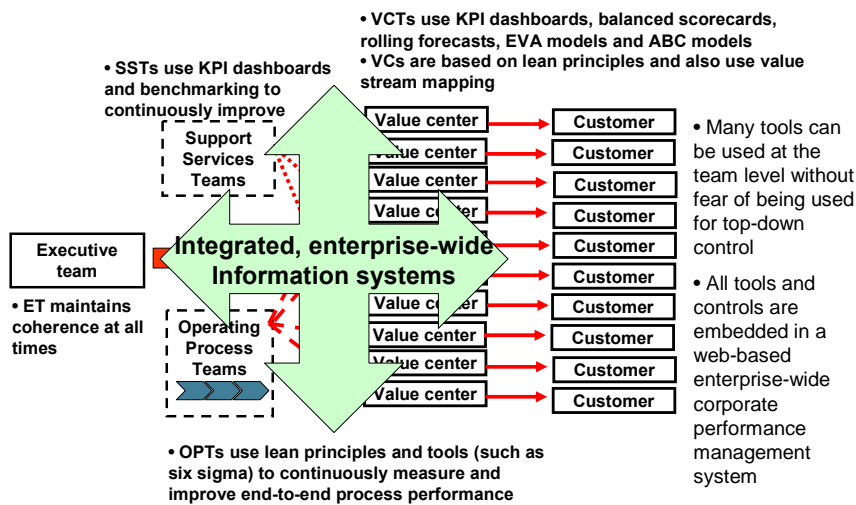


The emerging accountable and transparent organization



Source: Jeremy Hope, BBRT

Performance Management tools support new accountability flows



Source: Jeremy Hope, BBRT

Know where you are today

Cognos.
software

***Management reporting is over delivering
on quantity and under delivering on quality***

Quantity ≠ Quality



- Average length of management report ▶ **30-40 pages**
- Data points ▶ **12,000-15,000**
- Average amount of information included that managers find useful ▶ **5%**

n = 158
Source: CFO Executive Board ("Session Four—High Impact Controllership: Architecting the Data Pipeline for Business Impact", Finance Leadership Academy, 2007)

What does this report tell you about expenses?

Budget for 200X	Next Year		This Year		Last Year
	Budget	Actual	Budget	Variance	Actual
\$000s					
SALES	28,000	25,000	29,000	-4,000	33,000
Cost of sales	17,000	16,000	15,000	-1,000	16,000
Gross profit	11,000	9,000	14,000	-5,000	17,000
GP %	39.29%	36.00%	48.28%	-12.28%	51.52%
Sales, General & Admin					
Salaries	3,000	3,600	3,800	200	4,000
Travel & entertaining	600	650	700	50	900
Marketing	2,250	2,400	2,500	100	3,300
Accommodation	800	850	900	50	850
Technology	350	375	400	25	375
Administration	1,500	1,750	1,800	50	1,750
Total costs	8,500	9,625	10,100	475	11,175
Net profit	2,500	-625	3,900	4,525	5,825

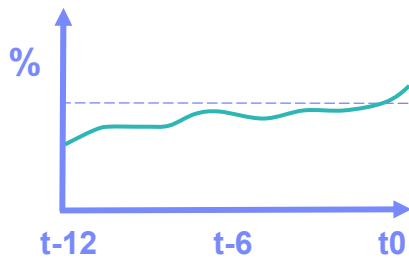
How is this organisation performing?

KPI	Status	Actual	Target
Sales	●	23.6m	19.8m
Customer Satisfaction	●	8.6	8.5
Inventory	●	41 Days	45 Days
Headcount	●	16	14
Overhead Expenses	●	823,533	790,000

How to monitor – effective approaches

Ratios, not
absolutes

“Room to move”
Recognise capacity issues



Early warning

Call to action

Trending &
moving averages

“Trend lines and ‘% change’ numbers
might not sound very advanced. (...)
Yet, it **focussed attention and
urgency** on costs.”

Bjarte Bogsnes, StatoilHydro



Make Reporting Relevant to Decision Making

TYPICAL



Department: Northwest Sales
 Period: Second Quarter

Travel Spending		Actual	Budget	Variance
	Airfare	12,725	9,225	(3,500)
	Hotel	4,000	3,250	(750)
	Ground Transportation	1,500	1,250	(250)
	Lodging	2,150	2,000	(150)
	Meals	600	700	100
	Other	275	275	0
Total Travel		21,250	16,700	(4,550)

Drive Understanding and Action

USEFUL



Department: Northwest Sales
 Period: Second Quarter

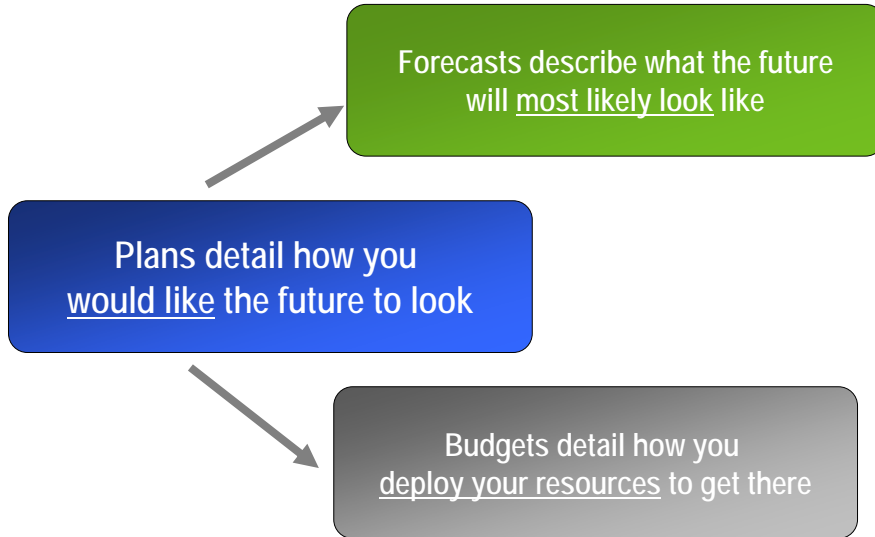
Travel Spending		Actual Q2	Q1	Q4	Q3
	Selling new business	5,700	6,000	8,000	8,500
	Selling to current customers	4,500	5,000	7,000	7,000
	Education & training	500	600	600	1,000
Total "Good" Travel		10,700	11,600	15,600	16,500
	Mitigating service issues	9,000	7,500	4,500	3,500
	Administrative	1,550	900	300	400
Total "Bad" Travel		8,800	8,400	4,800	3,900
TOTAL TRAVEL		21,250	20,000	20,400	20,400
	New Orders	195,000	240,000	235,000	228,000
	Good Travel to Orders	5.5%	4.8%	6.6%	7.2%
	"Good" to "Bad" Travel	50%	58%	76%	81%

Know where you're going

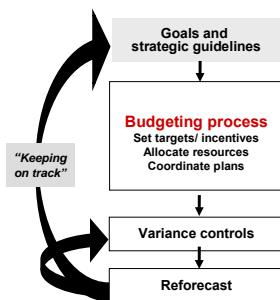
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Once per year?





The Budget.....many things to many people

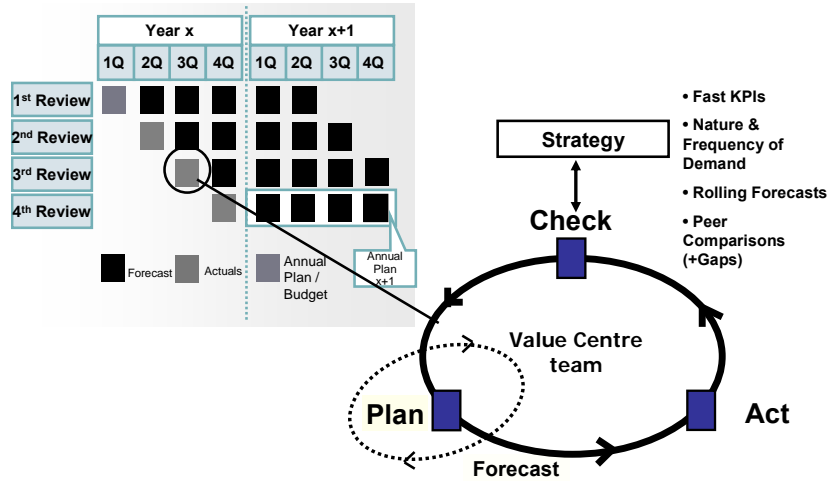


Break free from the budget conflicts

Source: Jeremy Hope, 2009, "How Performance Management can help you to Navigate through Turbulent Times", Paper #3

Continuous or event-driven planning

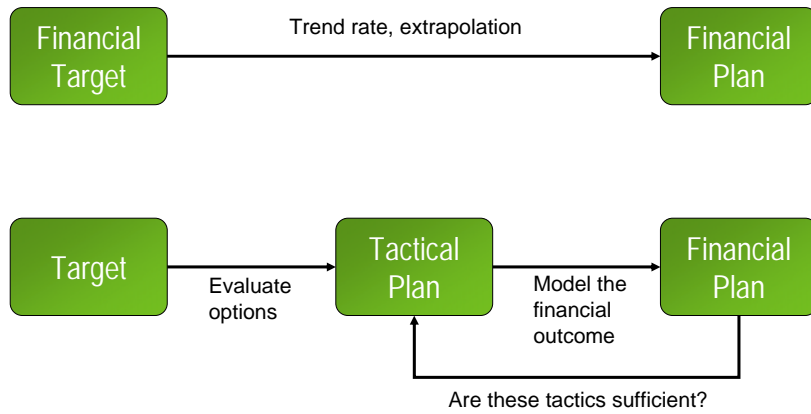
The rolling review and 'check-plan-act' cycle



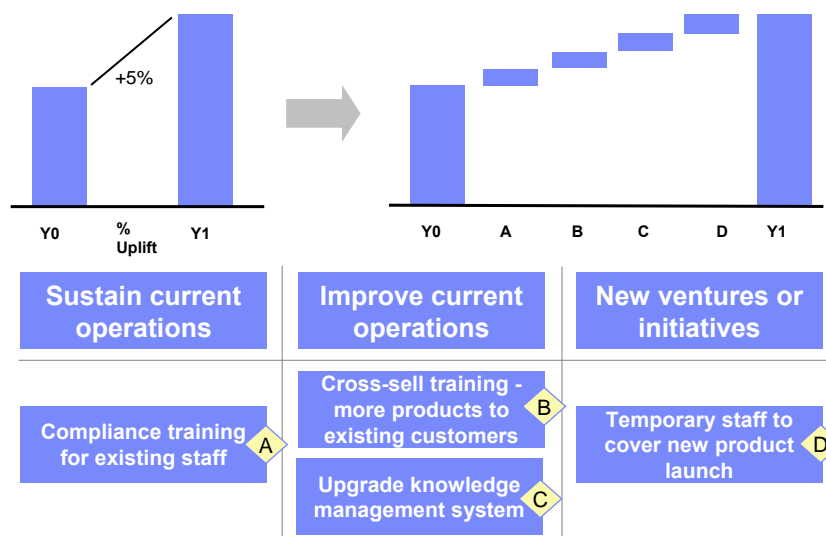
Focus on the real drivers

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Business planning process steps



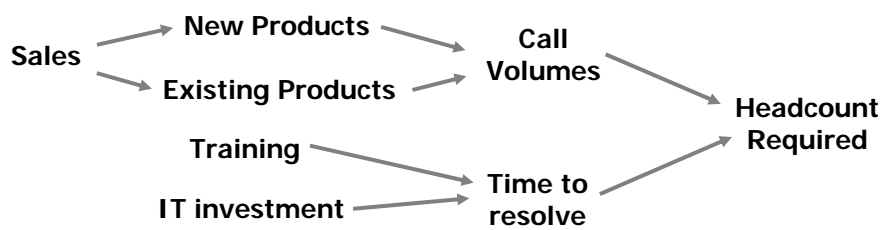
Example – customer support centre expense plans





Revenue plan

Expense plan



***Manage processes and activities (cost drivers)
rather than functions and budgets***

EXAMPLES OF BACK OFFICE PROCESSES

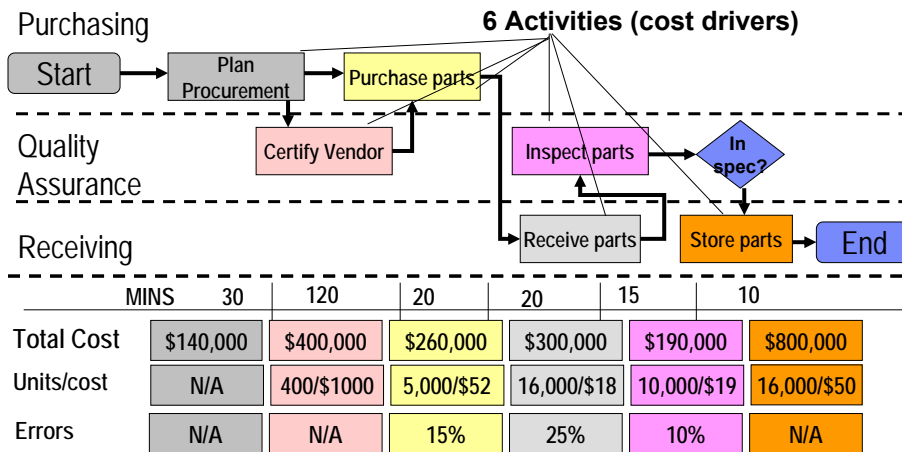
- Processing a sales order
- Receiving payment from a customer
- Paying a supplier
- Completing the month-end close
- Approving an investment proposal
- Preparing a budget or forecast
- Managing a performance review

Example - Statement of Procurement Costs

	\$000s	\$000s	\$000s	Primary reason
	Actual	Budget	Variance	
Purchasing				
Salaries	290	270	-20	Overtime
Expenses	110	100	-10	
Quality Assurance				
Salaries	420	440	20	Fewer inspections
Expenses	170	160	-10	
Warehousing costs				
Salaries	700	660	-40	Disruption caused by fire
Expenses	400	380	-20	Disruption caused by fire
TOTAL COSTS	2,090	2,010	-80	
Number of Purchase Orders	5,000	4,500	-500	Volume of business
Number of inspections	10,000	10,500	500	

Source: Jeremy Hope, BBRT

Now let's look at the same costs through the lens of a "process map" with cost drivers



TOTAL TIME 215 minutes: TOTAL PROCESSING COST: \$2,090,000

Source: Jeremy Hope, BBRT

Questions

- Why spend on planning when orders can be delivered within 24 hours?
- Why not pre-certify strategic suppliers?
- Why not agree block contracts with key suppliers that can be used without issuing purchase orders?
- Why not find root causes of PO/inspection errors and eliminate them?
- Why not train warehousing staff to handle inspections and abandon QA department?
- What is best practice cost and why don't we set benchmark goals based on them?

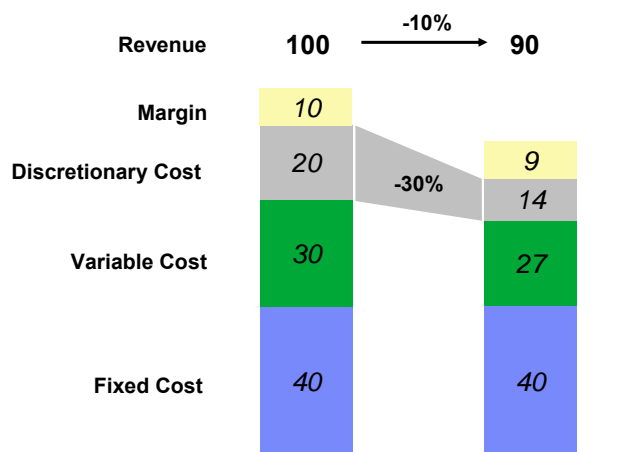
Revised procurement forecast based on cost drivers

Procurement (\$000's)	Q-4	Q-3	Q-2	Q-1	FQ+1	FQ+2	FQ+3	FQ+4	BP
Planning costs	35.0	35.0	35.0	35.0	30.0	20.0	10.0	5.0	0
Certify vendor costs	100.0	100.0	100.0	100.0	75	50	25	15	0
Number of purchase orders	1250	1250	1250	1250	1000	750	750	750	750
Average cost	\$52	\$52	\$52	\$52	\$50	\$48	\$45	\$45	\$35
Cost of purchase orders	65.0	65.0	65.0	65.0	50.0	36.0	33.8	33.8	26.3
No of deliveries/inspections	6250	6250	6250	6250	6250	6250	6250	6250	6250
Average cost	\$19.6	\$19.6	\$19.6	\$19.6	\$18.0	\$17.0	\$16.0	\$15.0	\$12.0
Cost of deliveries/inspections	122.5	122.5	122.5	122.5	112.5	106.3	100.0	93.8	75.0
Number of inventory activities	4000	4000	4000	4000	4000	4000	4000	4000	4000
Average cost	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$35
Cost of inventory activities	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	140.0
Total costs	522.5	522.5	522.5	522.5	467.5	412.3	368.8	347.5	248.7
Cost reduction (Year on Year)					10.5%	21.1%	29.4%	33.5%	

BP=Best Practice

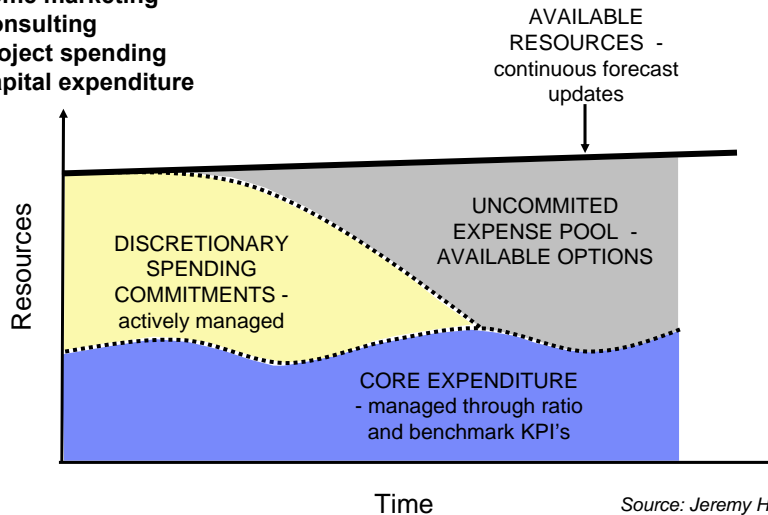
Distinguish core and discretionary cost

Operational gearing heightens cost pressure



Manage 'pools' of discretionary expenses using rolling forecasts

Some marketing
Consulting
Project spending
Capital expenditure



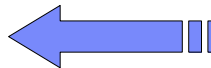
Source: Jeremy Hope, BBRT

Enable access to funds either directly or through peer group assessment

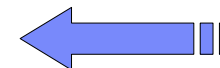
DISCRETIONARY EXPENSES:

- All expenses NOT essential for running the business including:
- Some marketing £50m
- Consulting £25m
- Project spending £20m
- Capital expenditure £90m

Method 1: Direct access under a threshold (say £100K) PROVIDED they follow decision rules

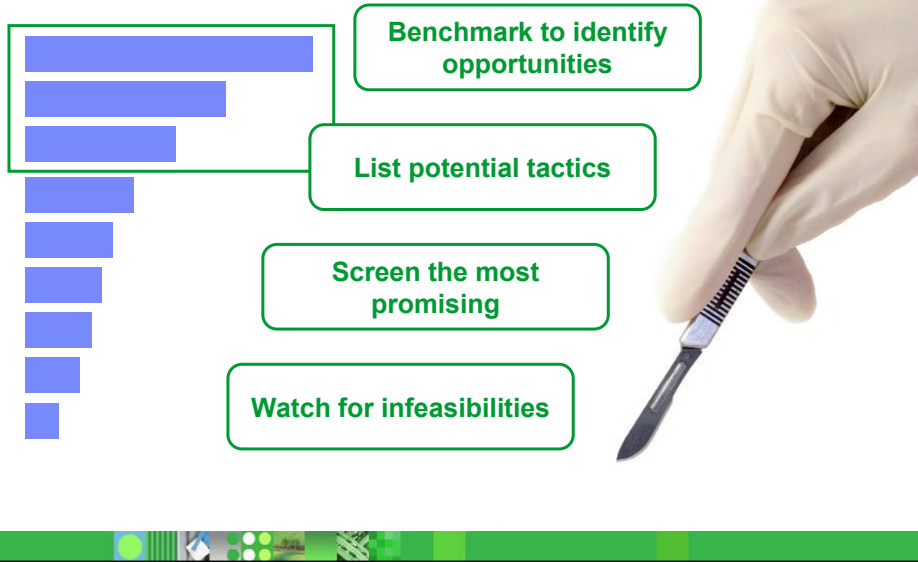


Local Team



Method 2: Over a threshold teams must apply for spending approval but decision made by VC leaders

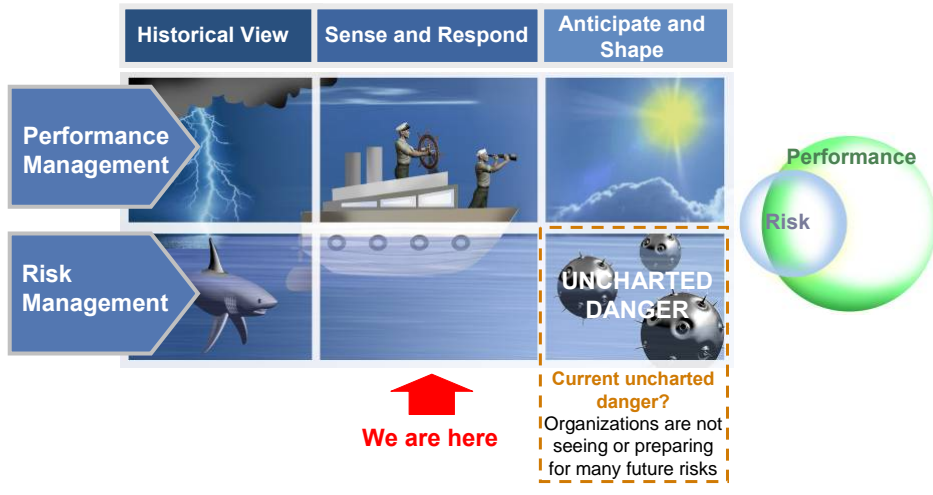
Tactical planning – identifying potential savings



Consider risk and projects

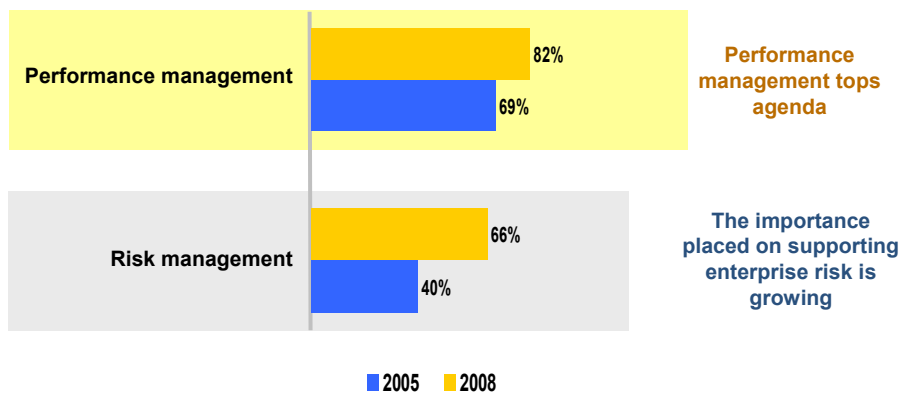
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Do current performance management practices have a 'blind spot' that exposes the enterprise to risk?



As a whole, Finance places a lower priority on supporting and measuring risk but it's growing

Finance's Top Areas of Importance
Percent of "Highly Important" Responses



Source: IBM Global Business Services, The Global CFO Study 2005, The Global CFO Study 2008

Finance executives do not see all the 'uncharted dangers'

- Managing risk is a lower priority
- Risks are prevalent and the majority are nonfinancial
- Reducing old risks often creates new ones
- Formal risk management is still fairly immature
- Risk is not included in planning

Integrating risk management into planning processes requires a number of actions

Key Recommendations to Integrate Risk into Planning Processes

- Consider traditional & non-traditional risks and prioritize based on value drivers
- Correlate independent risks
- Factor in the compounding effect of risks
- Conduct risk scenario planning

- Adapt budgets to reflect risk-adjusted planning and factor in risk mitigation costs
- When incorporating risks, balance between central and local / unit level responsibility

- Create a rolling forecast of risks
- Incorporate the impact of upside and downside risk(s) on rolling operating forecasts

- Enhance reporting to move up the maturity model of risk reporting
- Include key risk indicators, key failure modes & algorithms / rules for tracking risks
- Drive preventive and corrective actions

Risk-adjusted planning output can inform the budgeting process

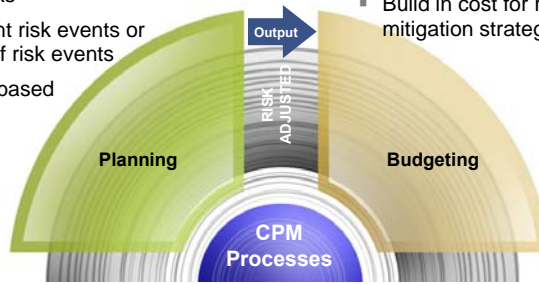
Risk-adjusted Planning Output

Risk-adjusted Planning Output
Strategic objectives and measures adjusted for:

- Potential new risks based on addressing old risks
- Activities to prevent risk events or address impacts of risk events
- High priority risks based on value drivers

Risk-adjusted Budgeting Implications

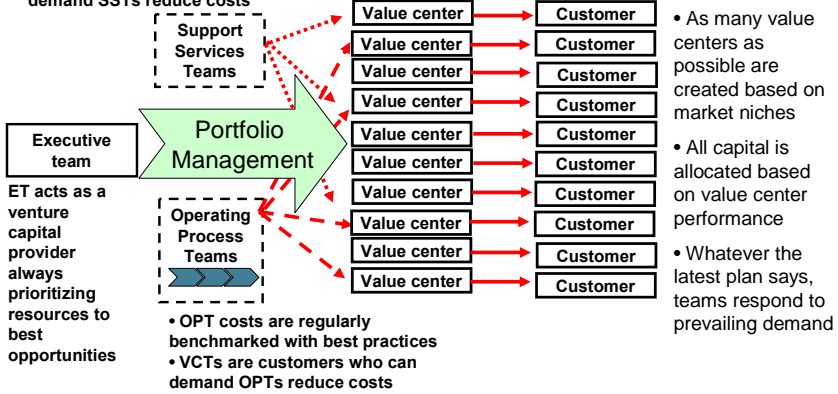
- Determine the impact of downside and upside risk events
- Build in cost for risk mitigation strategies



Source: IBM Institute for Business Value

Take a portfolio approach to investment

- SST costs are regularly benchmarked with best practices
- VCTs are customers who can demand SSTs reduce costs



ET acts as a venture capital provider always prioritizing resources to best opportunities

- OPT costs are regularly benchmarked with best practices
- VCTs are customers who can demand OPTs reduce costs

- As many value centers as possible are created based on market niches
- All capital is allocated based on value center performance
- Whatever the latest plan says, teams respond to prevailing demand

Techniques for driver-based planning

Re-visit
'accountability'

Know
where you
are today

Know where
you're going

Focus on
the real
drivers

Core vs
discretionary
cost

Consider risk
and projects

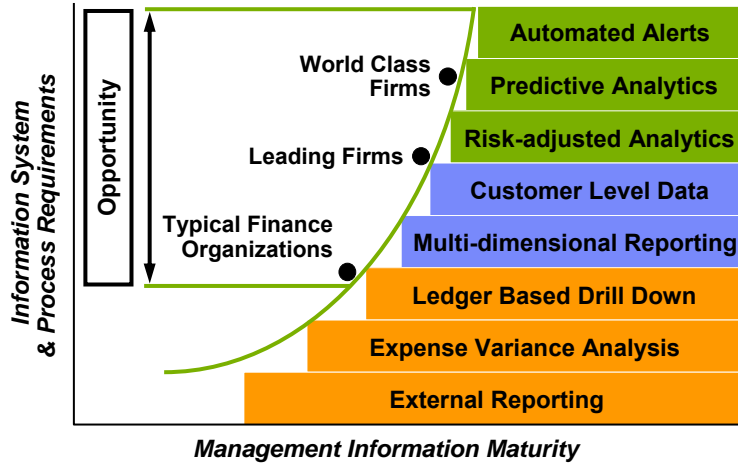
The role of technology

How technology can facilitate a continuous, driver-based approach to planning and monitoring

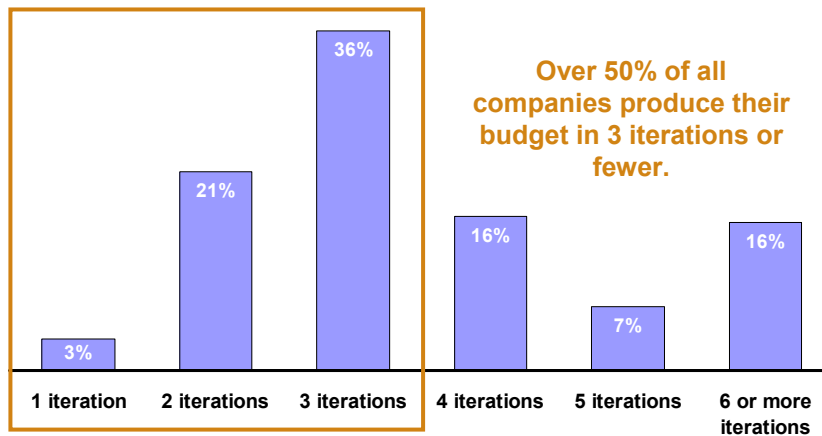
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For many, there is opportunity improve performance management to help navigate these turbulent times

Performance Management & Analytics Maturity Model



Average budget versions (iterations)

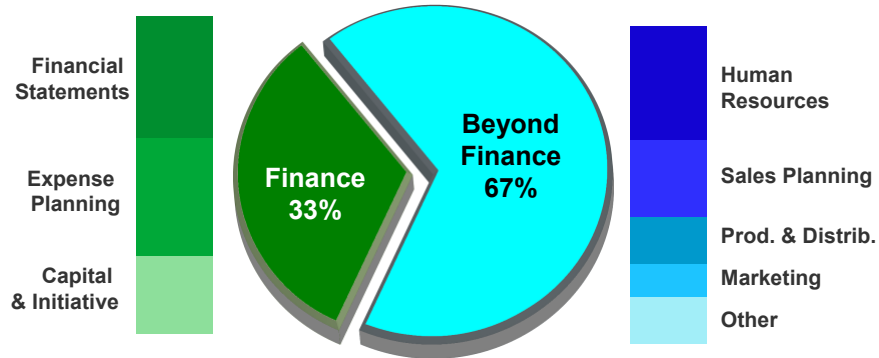


Average budget versions (iterations) produced during the budget cycle before approval of the final budget.

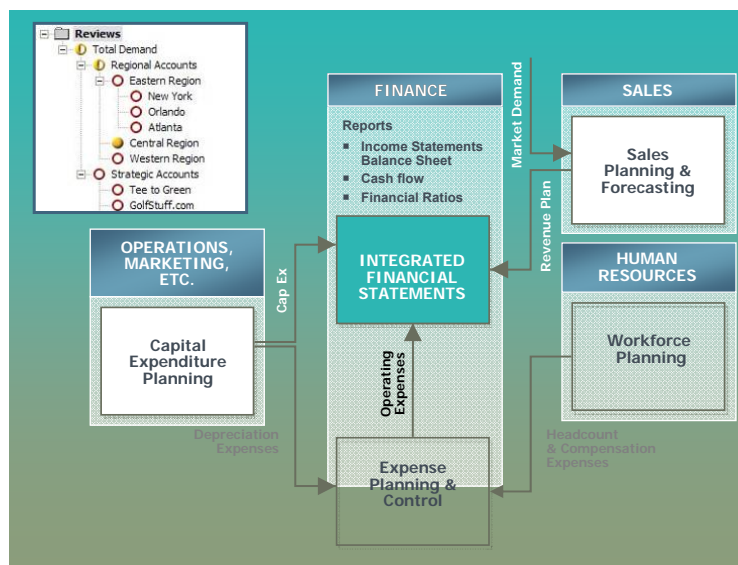
Source: IBM Benchmark Wizard

It's about more than Finance

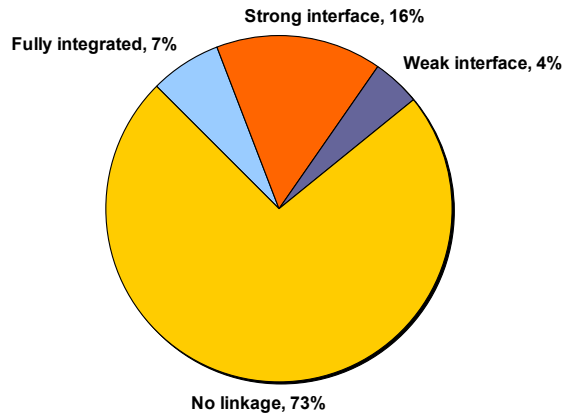
Top planning areas from a survey of 75 customers



Supporting cross-functional processes: Performance Blueprints



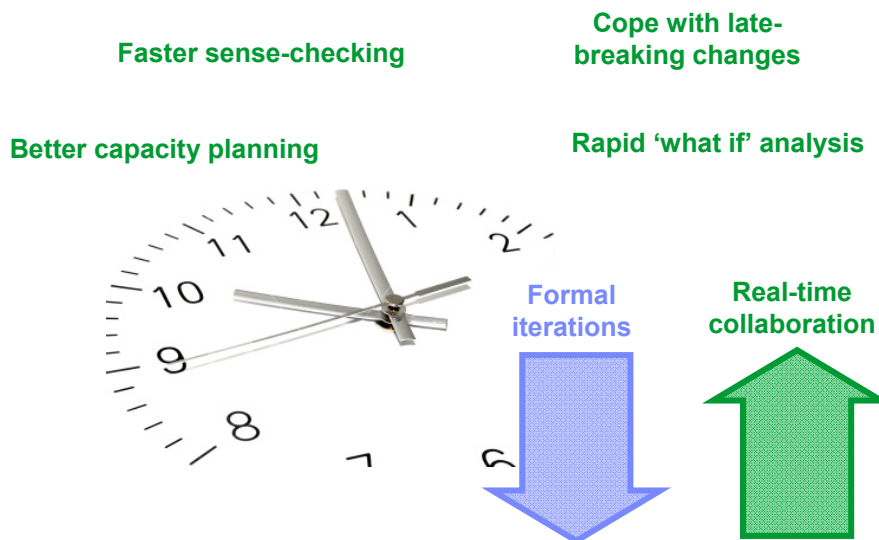
Linkage of sales to planning & budgeting process



Source: IBM Benchmark Wizard

To what extent the business entity's "perform planning/ budgeting/ forecasting" system links with the sales system.

Benefits of real-time collaboration



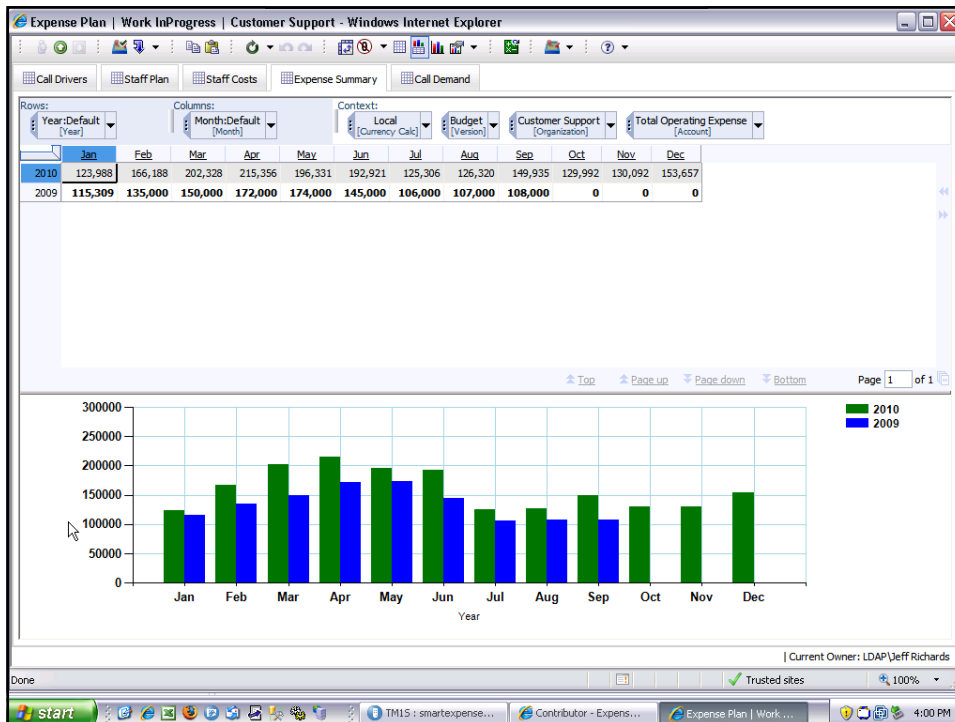
Driver-based planning with IBM Cognos solutions

Demonstration

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Smarter Expense demo

- TM1 Contributor 9.5 + Scorecarding demo
- Shows driver-based expense planning for Customer Support centre
- Shows linkage between Revenue planning and Expense planning
- Shows linkage of business unit strategy through to execution & tactics





Information Management IBM


Proof points


"There are two things about a budget: one is that it predicts the future, and does a particularly poor job of that, but secondly, it defines a measure of what is good. If you make budget, that's good. And if you don't, you've done a bad job. Unfortunately, trying to predict the future and define what is good are two fairly different processes. With the rolling forecasts in the IBM Cognos system, we have a better way to predict the future, keep it relevant and meaningful."

John Landis, CFO, Foster Farms









Next steps – how to get started

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UAP: Driving Performance in Turbulent Times



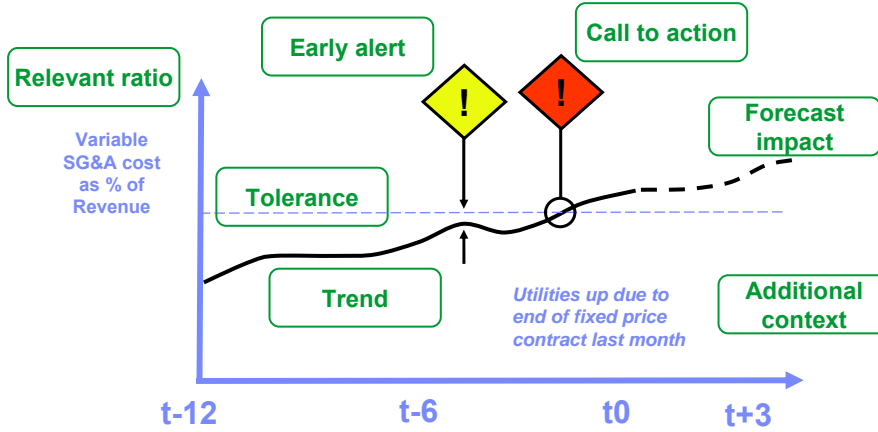
“ Within two weeks, UAP had canceled \$2 million worth of POs for products that weren't needed. ”

David Wheat,
Director of Decision-Support Systems



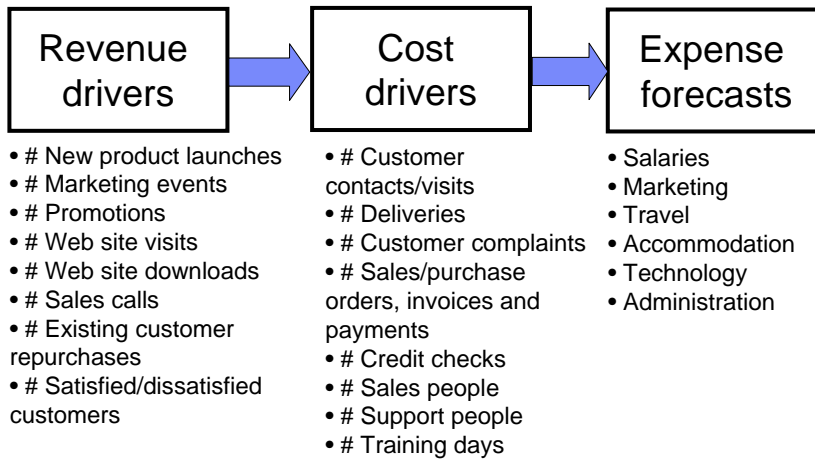
Cover Story: [Performance Management Links Strategy And Operations](#)
By Doug Henschen,
[InformationWeek](#)
Nov. 22, 2008

Testing the value of current management information



Source: 'Beyond information to insight: the promise of management reporting' by David Axson (an IBM Innovation in Action White Paper)

Critically examine transaction volumes – key drivers of cost



Appraise your current planning process

How long?

How many iterations?

How useful to the business?



IBM Cognos Performance Blueprints

- Expense Planning and Control
- Sales Planning & Forecasting
- Integrated Financial Statements

Innovation Center for Performance Management



Address essential functional processes with best practices
 The IBM Cognos® Innovation Center for Performance Management recognizes that there are certain functional business processes that are part of any company in any industry or sector. These functions are essential to the successful financial performance of all companies.

IBM Cognos Performance Blueprints address these functional processes. IBM Cognos Performance Blueprints address these functional processes in [enterprise planning](#) and [financial management and control](#). With these specialized Blueprints, you can apply proven best practices to your functional processes quickly, with less risk—and reduce your total cost of ownership. The Innovation Center offers Blueprints for these functional areas:



Next Steps...

- Come and talk to us
- Download our white papers
- Contact our local team



More info?

Contact Info:

stephen.brook@uk.ibm.com

New website:

www.ibm.com/cognos/innovation-center





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