Evaluation Guide

Expense Planning and Control Performance Blueprint

Information Management

Cognos® software

Introduction

For many companies, planning, budgeting and forecasting expenses typically involve detailed input with very little focus on the key metrics that drive expenses. Typically they use spreadsheets and existing general ledger applications–a lengthy, error-prone process that can inhibit the creation of an accurate expense plan. Validating and collecting expense plans is a labor-intensive process that leaves little time for planners and management to tie operational plans back to corporate objectives. Opportunities to identify potential resource issues are lost. This might diminish accountability and reduce commitment to hitting corporate objectives.

And yet, companies are painfully aware that it is more important than ever in these turbulent economic times to have accurate, driver-based expense plans that can align company-wide decisions and actions with future overhead expenditures. What these companies need are enterprise planning solutions that offer flexible modular modeling, personalized analytics and managed workflow with real-time response to reduce errors, improve control and boost accountability.

One such solution is the *IBM Cognos® Expense Planning and Control Performance Blueprint*, which blends personalized analytics with workflow for an integrated expense planning process that aligns expense plans with corporate objectives.

Align management decisions and actions with future expenditures to ensure accuracy, reliability and control

In uncertain economic times, companies constantly seek to allocate resources effectively to reduce risk, improve profits and drive cash flow. Critical to performance improvement are understanding and managing operating expenses. Today's highest performance companies can link business drivers to expenses, shift expenses rapidly and quickly communicate changes. As a result, they manage resources more effectively.

This evaluation guide examines the expense planning and forecasting process for companies who want to use driver-based planning and forecasting to achieve a comprehensive process that optimizes business.

During the expense planning process, companies must:

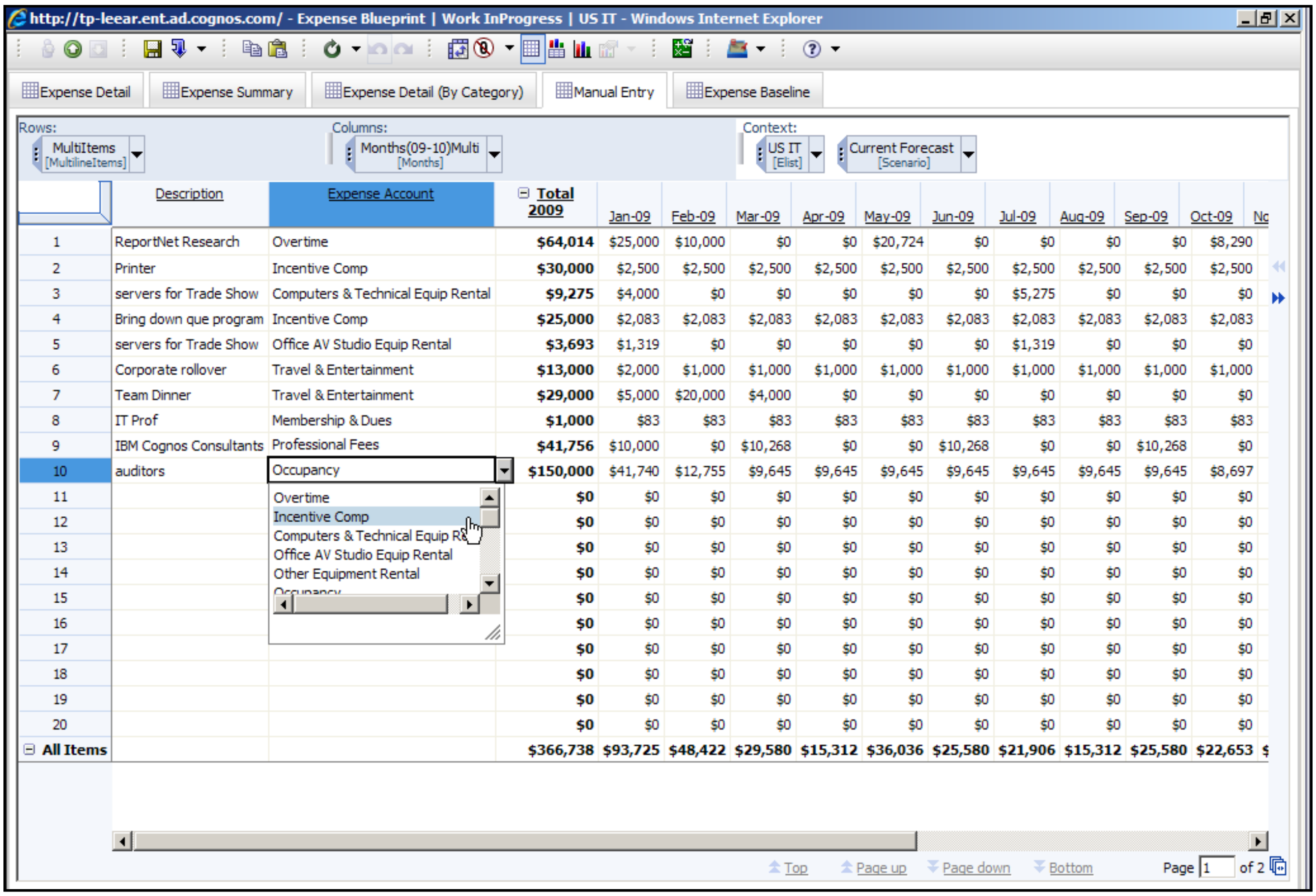
- Coordinate and establish a consensus expense forecast between sales, finance, human resources, marketing, operations and other functional areas.
- Understand the critical business metrics that drive expenses.
- Synchronize revised expense forecasts with corporate profit and loss statements.

Driver-based planning

The expense planning and forecasting process does not exist in isolation. Revenue plans that drive margin targets based on strategic goals often drive expenses up or down, while headcount and other business metrics might serve as drivers for a number of expense lines. To improve accuracy and accountability, the best practice of driver-based planning uses common components that typically derive an expense. For example, office supply expense can be easily calculated with a volume or driver times a rate. In this example we select headcount as a driver.

So: Office supply expenses = headcount (driver) x $15 (rate).

This approach is superior to simply entering dollars, because it is clear how office supply expenses are calculated. Further, to modify or correct them, all you have to do is change one or two numbers, which in turn roll up to alter cross-enterprise plans.



	Description	Expense Account	Total 2009	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
1	ReportNet Research	Overtime	**$64,014**	$25,000	$10,000	$0	$0	$20,724	$0	$0	$0	$0	$8,290
2	Printer	Incentive Comp	**$30,000**	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500
3	servers for Trade Show	Computers & Technical Equip Rental	**$9,275**	$4,000	$0	$0	$0	$0	$0	$5,275	$0	$0	$0
4	Bring down que program	Incentive Comp	**$25,000**	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083
5	servers for Trade Show	Office AV Studio Equip Rental	**$3,693**	$1,319	$0	$0	$0	$0	$0	$1,319	$0	$0	$0
6	Corporate rollover	Travel & Entertainment	**$13,000**	$2,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
7	Team Dinner	Travel & Entertainment	**$29,000**	$5,000	$20,000	$4,000	$0	$0	$0	$0	$0	$0	$0
8	IT Prof	Membership & Dues	**$1,000**	$83	$83	$83	$83	$83	$83	$83	$83	$83	$83
9	IBM Cognos Consultants	Professional Fees	**$41,756**	$10,000	$0	$10,268	$0	$0	$10,268	$0	$0	$10,268	$0
10	auditors	Occupancy	**$150,000**	$41,740	$12,755	$9,645	$9,645	$9,645	$9,645	$9,645	$9,645	$9,645	$8,697
11			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
12			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
13			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
14			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
15			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
16			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
17			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
18			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
19			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
20			**$0**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
All Items			**$366,738**	**$93,725**	**$48,422**	**$29,580**	**$15,312**	**$36,036**	**$25,580**	**$21,906**	**$15,312**	**$25,580**	**$22,653**

Expense planning and forecasting supports a number of other company activities. Expenses feed into integrated financial statements to help determine margin targets and their impacts on balance sheet and cash flow. For forecasting or re-forecasting, you want several expense scenarios to assess proposed resource allocations accurately.

Derived from strategic objectives, the key business drivers help create expense plans. The process of expense planning and forecasting compares plans with targets to ensure proper resource allocation. Targets are re-evaluated frequently to ensure optimal performance. At the end of the process, the key output is a consensus expense plan.

The consensus expense plan

Companies typically create expense plans as part of their planning or forecasting cycles. Expense planning begins after a company has established strategic objectives, usually expressing them as a set of integrated financial statements. The planners and forecasters then distribute the statements throughout the organization and operations begins translating goals into expense plans.

Most managers in charge of expense planning will use drivers–such as revenue and headcount plans–from other areas of the business. For example, they can use revenue units to drive revenue-sensitive supply expenses, ensuring that plan adjustments or re-forecasts are quick, accurate and aligned.

After initial expense plans are set, the corporate finance organization aggregates them to ensure they are in line with company goals. It is easy to make adjustments or reallocate resources with driver-based plans. As business conditions change, the company can measure the expense plans and re-forecast them if necessary.

Expense planning tools

Most companies use spreadsheets and existing general ledger applications for expense planning.

Spreadsheets offer great modeling flexibility for individual activities; however, they are ineffective as an enterprise-wide solution. Financial enterprise resource planning (ERP) systems can capture individual account transactions, but they cannot easily model the business much beyond general ledger accounts.

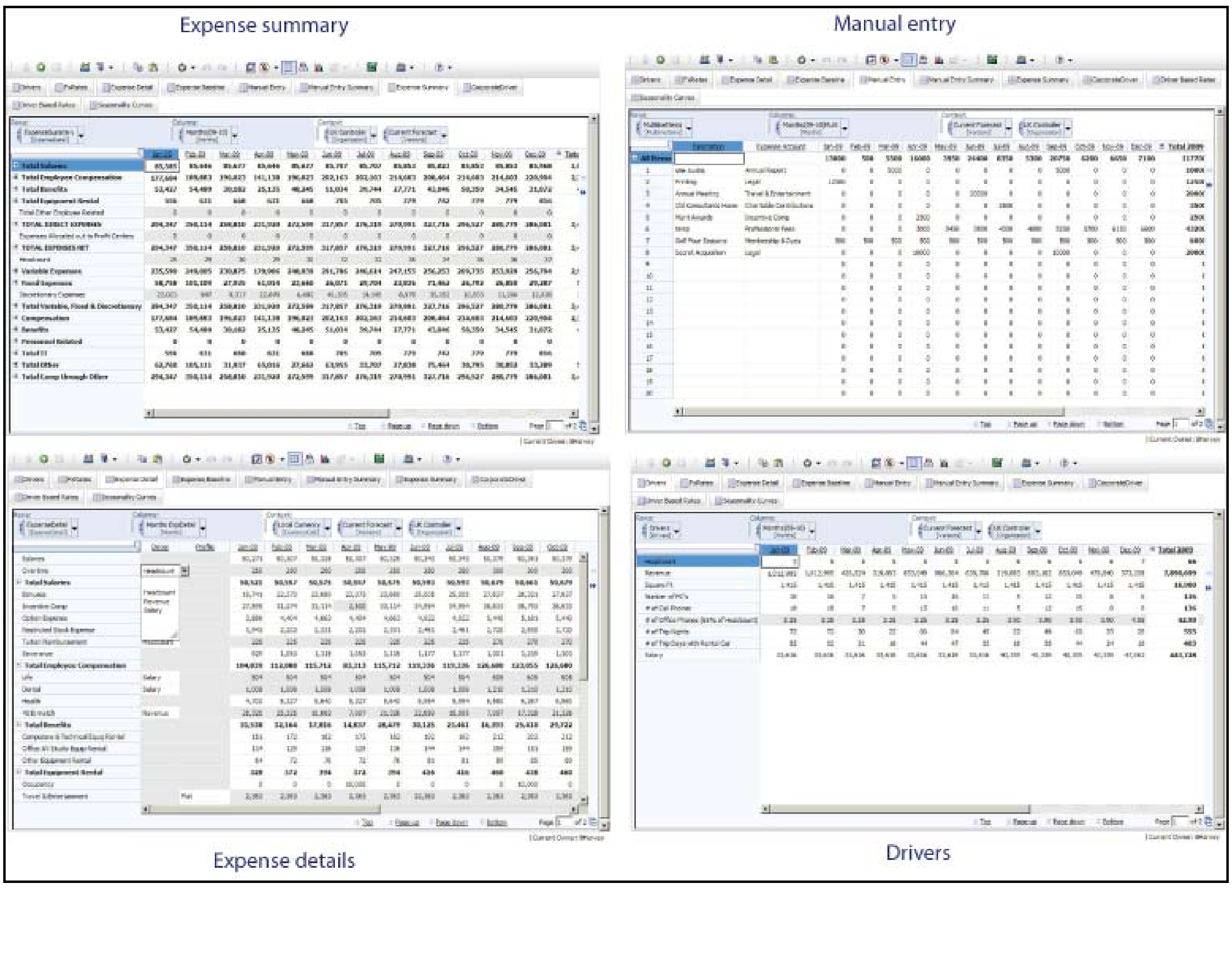
Spreadsheet and ERP systems are often used together, which only magnifies the weakness of each. The resulting process is typically lengthy and inaccurate, making it extremely difficult to derive a reliable expense plan. Even though most organizations cut corners, they still lack the time to ensure that expense plans are synchronized with other plans such as revenue or headcount plans.

The cycle takes so long and involves so many unnecessary resources that expense plans for the upcoming year are out-of-date by the time they are finalized and remain un-synchronized with other parts of the organization, especially in today's dynamic business environment.

Personalized analytics with managed workflow

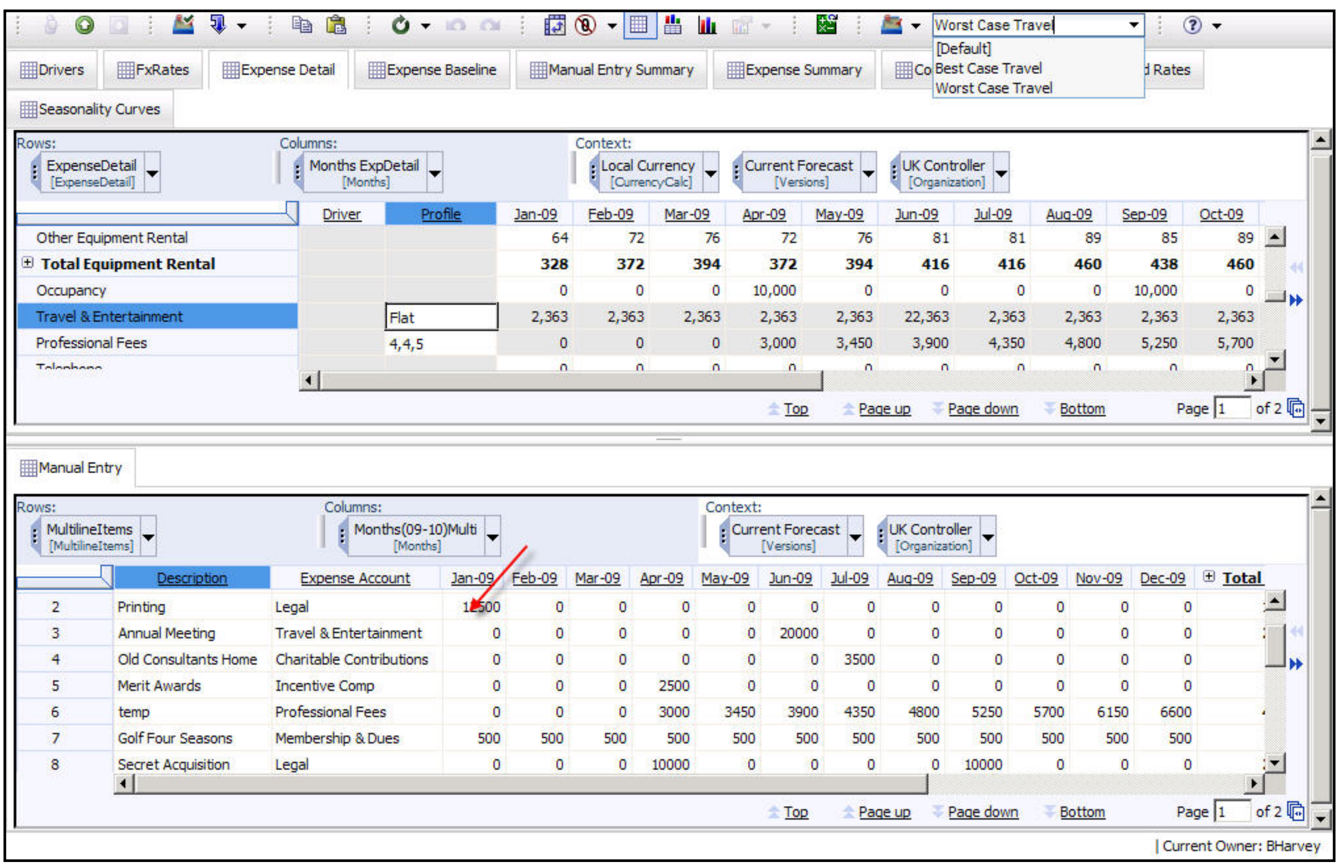
High-performance companies replace the manual spreadsheet process with IBM Cognos enterprise planning solutions. These planning solutions offer flexible modeling and personalized analytics blended with company-level workflow and real-time calculations and aggregation to reduce errors, improve control, and boost accountability.

These solutions connect an entire enterprise using common goals and key business drivers. They ensure that the whole organization is moving in synch. They also help companies create plans that not only are meaningful, and accurate, but can also be created and revised rapidly.



With IBM Cognos TM1, a financial planning manager or administrator assembles planning applications such as the expense plan with its key goals, establishes approvers and uses templates to make the application available to designated employees.

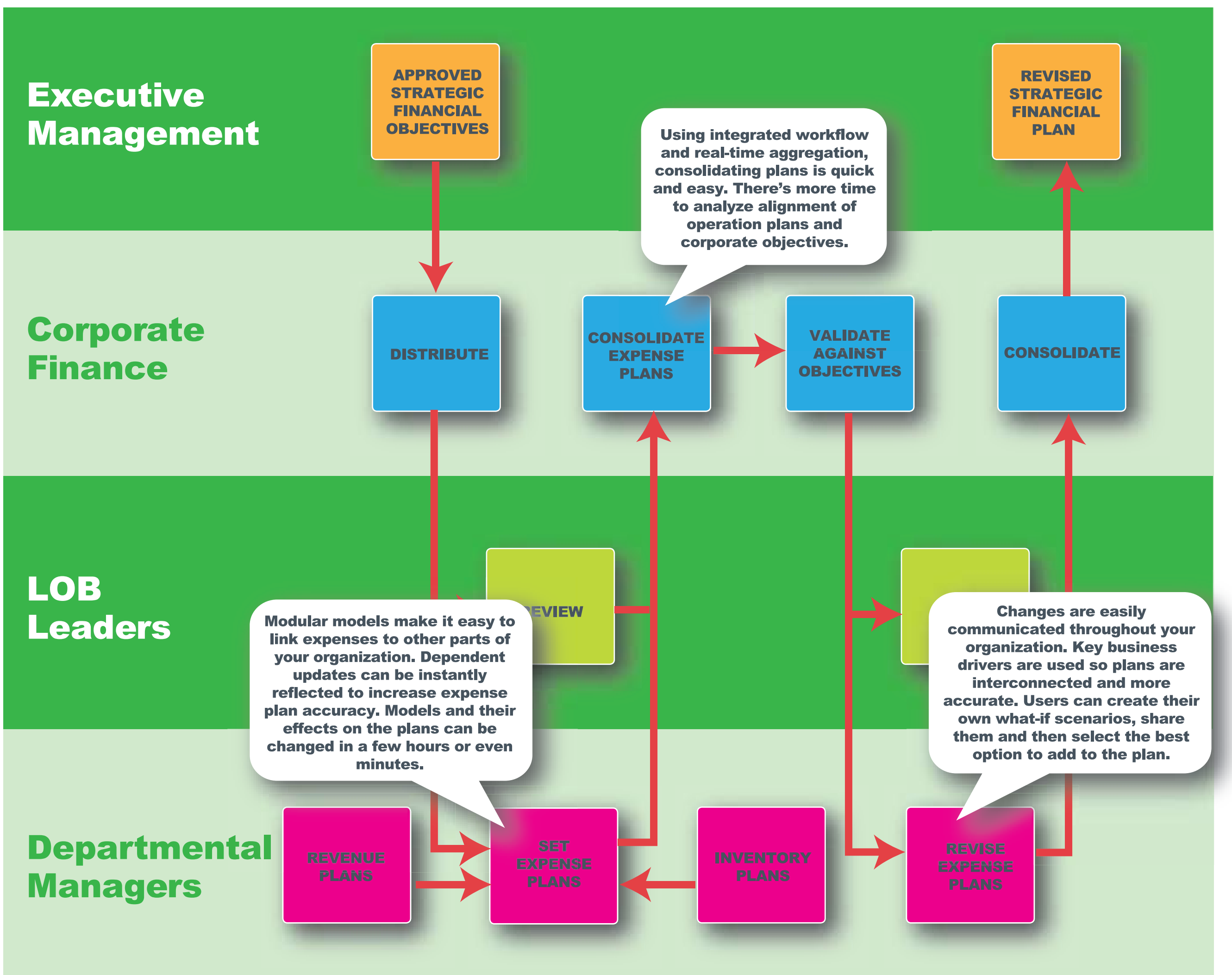
For the users determining expenses, TM1 provides advanced personalization blended with workflow activities. During the planning process, a sales vice president can not only complete his portion of the plan, but can also dynamically build his own set of what-if scenarios. For example, he can increase travel costs in a particular territory while reducing it in another. Then, he recalculates the numbers, no matter how complex and can view the expense impact instantly. The planner then shares this and several other similar scenarios with his manager or peers for their input, and submits the best scenario to the base plan when ready. Such activities facilitate more thoughtful analysis and discussion, especially when management or finance needs to communicate changes throughout an organization. Extra time enables more "what-if" simulation so that the company's management can select the best plan, based equally on corporate objectives and operational insights.



As plans change at the operational level–say, with a c–the driver-based plans reflect these changes so that the revenue-related expenses can flex up or down. Revenue, in turn, might affect other expense items such as office supplies or advertising spending.

Driver-based expenses are more transparent, because the numbers are based on key drivers rather than just dollar amounts. This method makes operations more agile because complex business logic can easily be cascaded throughout the organization.

When you combine personalized planning and workflow with real-time calculations and roll ups, you can complete more insightful plans in weeks rather than months.



The Expense Planning and Control Performance Blueprint

The *Expense Planning and Control Performance Blueprint* enables an integrated expense planning process that aligns expense plans with corporate objectives.

IBM Cognos Performance Blueprints are pre-configured solution building blocks that companies can use to jump start their implementations. Pre-defined data, process and policy models encapsulate the collective best-practice knowledge from the IBM Cognos Innovation Center for Performance Management and leading customers in specific business process areas.

Using the *Expense Planning and Control Blueprint*, an entire organization can create connected driver-based expense plans with an effective, intuitive and integrated planning process and very responsive analytics. The *Blueprint* resolves the twin challenges of lengthy expense planning cycles and disconnected plans between functional areas and corporate objectives. It provides structure for the entire organization to ensure that expense plans are in line with corporate targets.

Best-practice models quickly capture expense forecasts "from the front lines" and provide sufficient detail to improve forecast accuracy. For example, consider a company that has acquired an indirect channel for its product line and is revising its latest strategic financial objectives. The company has increased its guidance and has also decided to reallocate some key resources to the acquisition.

New objectives are passed to operations along with a revised set of integrated financial statements. Based on these revised goals, operations can quickly revise revenue plans upwards, due to the new product distribution channel. Based on the new revenue forecasts, expense managers receive updated revenue and inventory drivers to revise expense plans. They can easily incorporate the impact of new headcount as another expense plan driver. Expense managers can easily add detailed adjustments on top of driver-based expenses to enable re-allocations for merger-related activities.

New expense plans are quickly rolled up. Plan consolidation is instantaneous, so finance can review and analyze the new forecasts in light of the latest strategic financial objectives. With more analysis time, finance realizes that too much has been allocated to certain merger-related expenses, which are already accounted for. Finance communicates the required changes to operations, which then drops those expenses and related headcount, and requests increased headcount for other revenue opportunities.

Because the new figures meet the revised goals for revenue and margin, the updated plans can be consolidated.

Conclusion

The *Expense Planning and Control Performance Blueprint* enables an integrated expense planning process that aligns expense plans with corporate objectives. Your entire organization can create connected driver-based expense plans with an effective, intuitive and integrated planning process. The *Blueprint* resolves the challenges of lengthy expense planning cycles and disconnected planning by providing structure that ensures that expense plans are in line with corporate targets. Its flexible modeling, personalized analytics and managed workflow also help reduce errors, improve control and boost accountability.

About the IBM Cognos Innovation Center for Performance Management

The IBM Cognos Innovation Center for Performance Management is dedicated to the understanding, adoption, and implementation of next-generation practices in planning, analytics, performance management, and business intelligence competency. It is a consortium of industry leaders, practitioners, thought leaders, forward-looking executives, and technology experts experienced in, and committed to, the advancement and successful application of technology-enabled performance management best practices. The Innovation Center seeks to assist organizations in optimizing the alignment of their plans, processes, and resources with corporate goals and strategies.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

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