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Document **H46**

ROI CASE STUDY COGNOS PLANNING METALS MANUFACTURER

THE BOTTOM LINE

By deploying Cognos Planning, a metals manufacturer increased the productivity of its sales staff and reduced inventory carrying costs.

ROI: 153%

Payback: 8 months

THE COMPANY

Based in Sweden, the company is a global developer, manufacturer and marketer of metal powders for use in a wide variety of manufacturing processes, including surface coating, welding, and printing. Because they can be used in such a wide variety of metal-related processes, the company's products are purchased by companies in virtually all industries that perform manufacturing. The company is publicly-held and has an aggressive investor relations strategy that includes publicly stated goals for profitability and revenue growth.

THE CHALLENGE

Because of its aggressive profitability goals, the company's board of directors and senior management are always looking for ways to improve its visibility into its operating performance and increase profitability. In late 2004, the company evaluated its annual budgeting and forecasting practices and began seeking ways to improve them. The existing processes required more than 50 sales people and sales managers to put budget and forecast data into thousands of cells within hundreds of Microsoft Excel spreadsheets. Management determined that these processes were too lengthy, error prone, and labor intensive. Management also wanted its sales force to spend more time thinking strategically about their forecasts than just inputting numbers.

THE STRATEGY

In early 2005, the company began looking at financial forecasting and planning tools, and looked at solutions from both Cognos and its ERP partner. Cognos 8 Planning was chosen for a number of reasons, including:

- **Functionality.** The company completed an RFP process in which Cognos was able to prove that it had all of the functionality and features that the company was seeking.
- **Standardization.** The company was already running Cognos 8 PowerPlay and Cognos 8 Controller. Staying within the Cognos product offering for the new

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budgeting and forecasting solution would both minimize training costs and increase the returns on the investment already made in Cognos.

- **Integration.** Cognos 8 Planning was designed to be integrated with PowerPlay and Controller, enabling the company to minimize deployment costs.

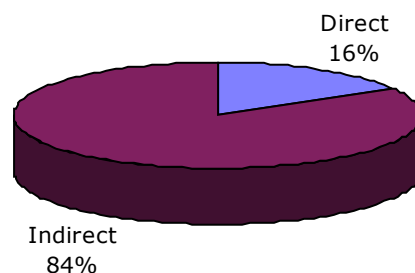
In June 2005, three people from the company began working on the deployment of Cognos 8 Planning with two consultants from Intellibis, a Cognos partner. The majority of the deployment was focused on replacing the existing data structure. The deployment team first divided the data into 10 pieces according to product, then by sales group, in order to maximize the performance of Cognos 8 Planning. The deployment team also converted all the data from the old database arrangement to the new, scrubbed it, then validated it with testing.

Cognos 8 Planning was made available to 54 users in September 2005. User interfaces were designed to be similar to the interfaces in the old system, but with far more functionality, in order for workflows to be faster. This enabled the company to minimize adoption resistance and training demands — and complete the deployment in time for the beginning of the 2006 budgeting cycle.

KEY BENEFIT AREAS

Deploying Cognos 8 Planning enabled the company to improve employee productivity and reduce inventory levels. Key benefits from the solution include:

- **Improved staff productivity.** The flexibility of the user interfaces in Cognos 8 Planning enables sales people to input and exchange data far more efficiently than with the prior complex arrangement of Excel spreadsheets. For example, the solution allows sales staff to provide data for aggregated groups of products or sales teams rather than requiring input at the employee or SKU level of detail. Additionally, because of better visibility from improved planning, the company has eliminated one of its four annual planning cycles.

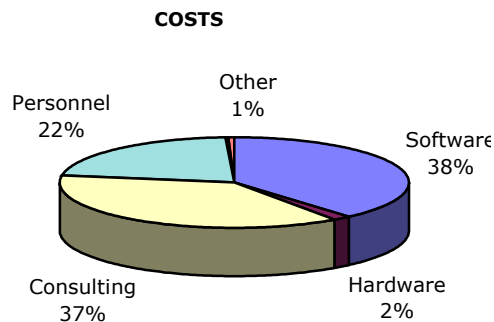
BENEFITS

TOTAL: \$1,438,050

- Reduced inventories. As a result of better forecasting, the company achieves more accurate production plans. Because of this accuracy, the company has been able to reduce its inventory levels by 700 tons, which reduces working capital carrying costs.
- Improved controller productivity. Because the budgeting and forecasting cycles are now less labor intensive, the company's controller is now able to spend time on more strategic tasks such as analyzing budgets instead of collating them. Without Cognos 8 Planning, this would have required one additional staff member.

KEY COST AREAS

Key cost areas for the deployment included software, consulting, personnel, and hardware. Software costs consisted of 54 seats of Cognos 8 Planning and ongoing license maintenance fees. Two consultants from Cognos partner Intellibis spent four months creating the new data structures and deploying the solution with three people from the company. The new data structures and Cognos 8 Planning were deployed on a new server.



TOTAL: \$384,885

LESSONS LEARNED

Careful attention to user interfaces was critical to both rapid user adoption and completing the deployment on time despite a demanding timetable. During the deployment, the team faced a number of challenges. Summer vacations made staff availability variable, the sales organization was restructured, and a key deployment team member went on paternity leave three weeks earlier than anticipated. Despite these difficulties, sales staff and finance managers were able to fully adopt the solution in time for the 2006 planning cycle, which began in September 2005. The deployment team accelerated this adoption by creating user interfaces that are similar to the prior Excel-based data flows. Although this practice often lengthens deployments with no real benefit, it enabled the deployment team to maximize speed of adoption.

User adoption was also accelerated because the deployment team provided training on a selective basis. Employees received a training manual designed specifically for their roles. These manuals focused on the parts of the solution they needed to use and provided links and information about how they could expand their use of

Cognos in their budgeting and forecasting activities. This enabled the training effort to reach people who are aggressive technology adopters without alienating or intimidating those who adopt more slowly.

CALCULATING THE ROI

Nucleus calculated the costs of software, hardware, consulting, personnel, training, and other investments over a 3-year period to quantify the company's total investment in Cognos 8 Planning.

Direct benefits consisted of the reduction in inventory levels, which reduced the company's financing costs. Indirect benefits calculated included time saved by sales people who participate in periodic planning and budget cycles – these can now be completed more quickly and the number of annual cycles has been reduced from four to three. Indirect benefits also included improved productivity of the company's controller, who has been able to allocate his time to more value-added tasks such as strategic budget analyses without hiring additional staff. Increased productivity of employees was calculated based on the average fully loaded cost of employees. A correction factor was applied to this benefit to account for the inefficient transfer of time from time saved because of the Cognos deployment to time spent on new tasks.

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DETAILED FINANCIAL ANALYSIS

METALS MANUFACTURER

SUMMARY

Project:	Cognos 8 Planning
Annual return on investment (ROI)	153%
Payback period (years)	0.66
Net present value (NPV)	352,499
Average yearly cost of ownership	128,295

ANNUAL BENEFITS	Pre-start	Year 1	Year 2	Year 3
Direct	0	78,400	78,400	78,400
Indirect	0	400,950	400,950	400,950
Total Benefits Per Period	0	479,350	479,350	479,350

DEPRECIATED ASSETS	Pre-start	Year 1	Year 2	Year 3
Software	93,000	0	0	0
Hardware	0	0	0	0
Total Per Period	93,000	0	0	0

DEPRECIATION SCHEDULE	Pre-start	Year 1	Year 2	Year 3
Software	0	18,600	18,600	18,600
Hardware	0	0	0	0
Total Per Period	0	18,600	18,600	18,600

EXPENSED COSTS	Pre-start	Year 1	Year 2	Year 3
Software	0	18,635	18,635	18,635
Hardware	6,000	0	0	0
Consulting	62,500	28,754	27,157	25,000
Personnel	27,260	18,692	18,692	18,692
Training	1,227	0	0	0
Other	0	2,006	0	0
Total Per Period	96,986	68,087	64,484	62,327

FINANCIAL ANALYSIS	Year 1	Year 2	Year 3
Net cash flow before taxes	411,263	414,866	417,023
Net cash flow after taxes	214,931	216,733	217,811
Annual ROI - direct and indirect benefits			153%
Annual ROI - direct benefits only			11%
Net present value (NPV)			352,499
Payback (years)			0.66
Average annual cost of ownership			128,295
3-year IRR			142%

FINANCIAL ASSUMPTIONS

All government taxes	50%
Discount rate	15%