

# PERFORMANCE MANAGEMENT FOR THE MIDSIZE ORGANIZATION: Strategies for Uncertain Economic Times

FEATURING RESEARCH FROM GARTNER



**Gartner**

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Small to midsize enterprises understand the value of performance management for aligning people and strategy across the business. But value must always be balanced against cost. In today's uncertain economic climate, is performance management a good investment for the midsize organization?

In a word, yes. Good decisions are the building blocks of great business performance. Performance management helps midsize organizations make informed, timely decisions to gain agility and beat the competition – even amid intense cost-cutting pressures. The key is to take a flexible, managed approach to higher performance, while making the most of existing IT investments and resources.

According to a new Gartner research report, “Cost Cutting Requires Corporate Performance Management,” the current weakness in financial markets is fueling the demand for better performance management (see Page 8 for the complete report). Gartner writes:

*“As financial market fears drive demands from the board to minimize costs and maximize profits, organizations are increasingly deploying corporate performance management (CPM) applications to help them make strategic decisions. CFOs and CIOs must investigate how CPM can assist their organizations in making the right strategic and operational decisions to streamline costs and optimize performance.”<sup>1</sup>*

This is why, now more than ever, performance management has emerged as a strategic imperative in midsize organizations. By linking strategy with execution, managers have the insights and understanding to grow revenue, reduce operating costs, and improve processes, while leveling the playing field with larger competitors.

Cognos, an IBM company, offers performance management solutions that let decision-makers proactively track, monitor, and respond to continuously up-to-date operational metrics in real-time or near real-time, with minimal IT intervention, and for a low total cost of ownership. With versatile architectures designed for interoperability with other systems and support for an unlimited amount of data sources, Cognos solutions free midsize companies to concentrate on what they do best – exceeding the expectations of customers and growing the business.

<sup>1</sup>Gartner, “Cost Cutting Requires Corporate Performance Management,” by Neil Chandler, February 27, 2008.



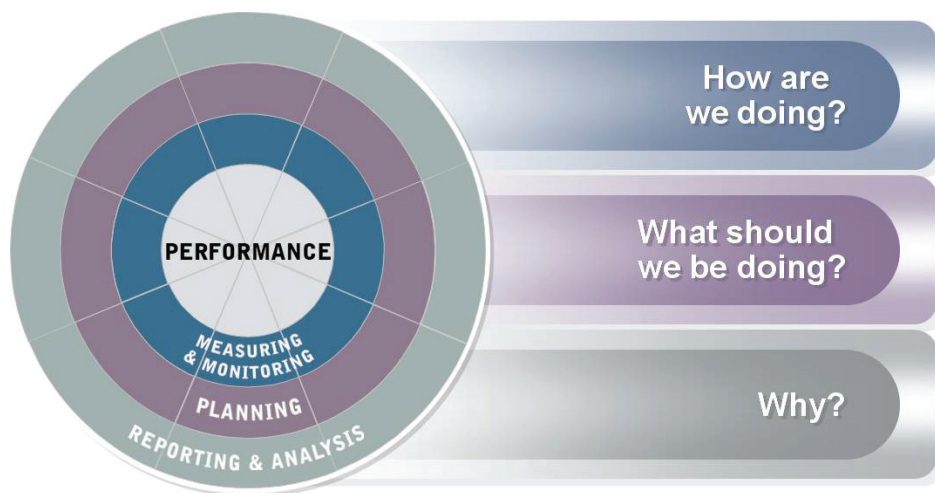
“For us, the ROI gained from our Cognos BI solution stems from improving customer loyalty and keeping our largest customers such as Wal-Mart happy. We are one of the few crafting companies that can actually supply Wal-Mart the way they want. Without Cognos, this would not be possible.”

*Jim Mulholland, Vice President,  
Information Technology, Creativity, Inc. /  
Westrim Crafts*

## WHAT IS PERFORMANCE MANAGEMENT?

Performance management has been defined as a series of management processes that include setting strategy and goals, defining key metrics, measuring and monitoring performance against goals and metrics, and analyzing and reporting on performance. At its core, performance management solutions enable your decision makers to answer three fundamental questions:

1. How are we doing?
2. Why?
3. What should we be doing?



It's next to impossible to answer these three key questions quickly and accurately if your decision-makers rely on manual spreadsheet-based processes, and need to pull financial and planning data from multiple, disconnected software systems. Combining the results of multiple spreadsheets manually into a consolidated view is both time-consuming and highly error-prone.

At the same time, a performance management solution shouldn't be cost-prohibitive or require an overhaul of existing IT investments. To deliver true value to the cost-conscious mid-market business, performance management should leverage existing IT resources and infrastructure to speed time to results, lower cost of ownership, minimize risk, and maximize return on investment. In other words, the promise of value-based performance management is improved operating performance – without breaking the bank.

Better decision making need not be an “all or nothing” proposition. By taking progressive steps to better integrate information, technology, and people, your managers can answer the three critical questions that drive performance – and become better decision makers. Performance management provides a common understanding of the metrics, plans, and reports within and across their functional areas to make the best possible decisions.



“With Cognos, we have not only streamlined our budgeting process, but we have decreased month-end processing time from days to a few hours. We now have a stronger platform for decision-making with multiple planning models to address regional diversity with defined corporate consistency.”

*Debbie Pastura, Assistant Corporate Controller, Rumpke*

## THE FINANCIAL IMPERATIVE

Many midsize companies are reevaluating operational costs to ensure maximum efficiency. Not surprisingly, performance management initiatives are often driven by the CFO and finance function, and are increasingly seen as a way to drive cost cutting and profitability.

Budgeting, planning, and forecasting (BP&F) applications are essential tools in setting financial targets for revenue, expenditures, and cash generation, and analytic applications help forward-looking enterprises make the right strategic and operational decisions. These are the essential elements of corporate performance management, or CPM. According to Gartner:

*“Organizations that lack sufficient clarity or sophistication in the execution of their financial processes should consider CPM. CPM solutions provide a more detailed and accurate measurement of current performance and enable organizations to better manage future performance.”<sup>2</sup>*

Gartner makes three recommendations to midsize enterprises contemplating performance management:

- Organizations should replace legacy and spreadsheet-based solutions for BP&F with core CPM functionality.
- CFOs and CIOs should employ CPM solutions as part of a broader business intelligence and performance management strategy, as a quick-win tactic in support of cost-control and revenue-optimization strategies.
- Organizations should realize that implementing a BP&F solution can be achieved in less than six months and with a small budget that will deliver a quick return on investment.<sup>3</sup>

Let's look at each of these recommendations in detail, and how Cognos addresses them.

### **1. Organizations should replace legacy and spreadsheet-based solutions for budgeting, planning, and forecasting with core performance management functionality.**

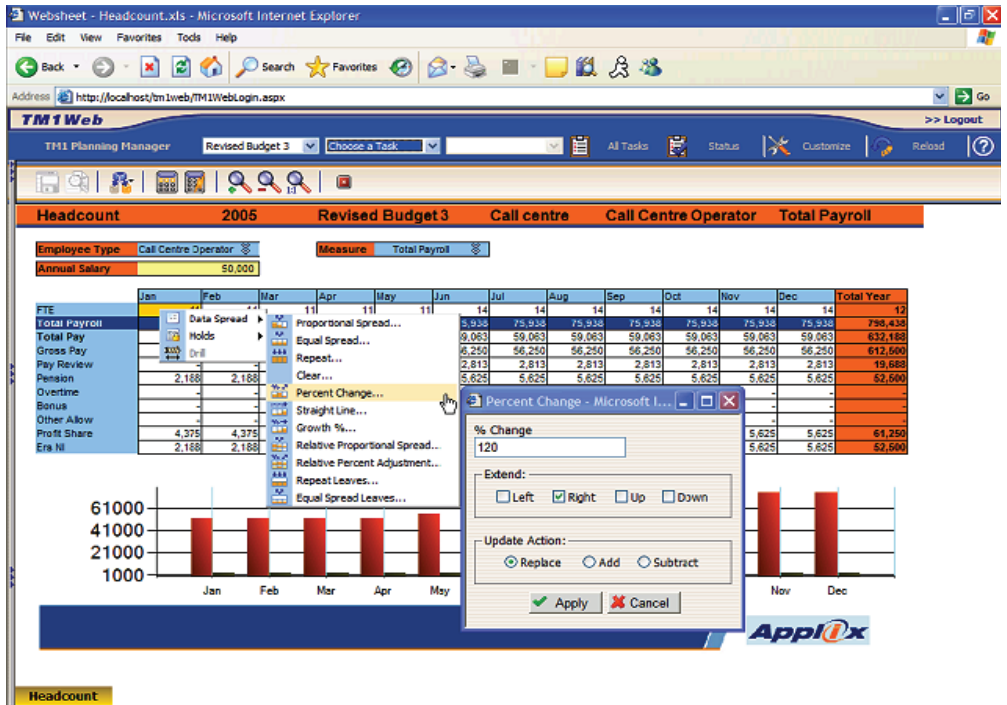
Spreadsheets may be a familiar, flexible productivity tool, but they were never designed to handle the financial performance management needs of complex, rapidly growing companies in dynamic, highly competitive markets. They were never designed for creating and applying rigorous definitions and controls to your business processes. Nor were they designed to be used as a data store for millions – even billions – of cells, or for simultaneous use by hundreds or thousands of users across your company.

So, if enterprise-class performance management solution suites are beyond your means, and ubiquitous spreadsheets do not meet your needs, where do you turn?

Success in a dynamic marketplace depends on getting the right information to and from the right people at the right time. IBM Cognos TM1 MidMarket Edition is a complete performance management solution supporting key financial processes from planning, budgeting, and

<sup>2</sup>Gartner, “Cost Cutting Requires Corporate Performance Management,” by Neil Chandler, February 27, 2008.

<sup>3</sup>Ibid.



IBM Cognos TM1 MidMarket Edition engages executives, managers, and staff across your entire performance management process.

forecasting to consolidation, reporting, and analytics. Immediate feedback enhances decision-support at all levels of your business.

IBM Cognos TM1 MidMarket Edition deploys easier, reacts faster, and reaches further across your organization than any other financial performance management product. It streamlines information gathering, aggregation, and analysis so you can spend more time on what you do best – running and growing the business. The solution provides the following key benefits to improve a company's financial process:

- Cost-effective alternative to spreadsheets
- Reduces errors with closely monitored data collection, rapid aggregation, and a rigorous approval process
- Centrally manages business hierarchies, rules, calculations, and data using the industry's leading in-memory analytics engine
- Offers a user-friendly web interface or the familiar Microsoft Excel® front-end, with deep Excel integration
- Reduces the demand on overstretched IT resources-minimal IT support is needed for installation and setup.



“The overall payback of the unified picture provided by Cognos has been priceless. For an executive to be able to view information quickly, you can't put a value on it. Reports that previously took days to create can now be completed in a matter of minutes.”

*Carl Richardson, BI Product Manager, MassHousing*

- **More effective collaboration**

- Automates and manages financial performance management processes across functional areas and business units
- Provides immediate feedback to enhance decision support at all levels
- Adapts readily to rapid growth and change, engaging hundreds of operational managers in a collaborative process using guided applications
- Enables users to maintain data and generate reports quickly and easily, thanks to self-help components like wizards, workflow, pre-built databases, sample cubes, and plans.

In short, you can move your business forward with confidence, and empower your end users to implement efficient business processes. The Cognos TM1 solution streamlines information gathering, aggregation, and analysis and enables what-if scenario modeling for performance optimization. And role-based security and a clear audit trail facilitate accountability and accuracy.

**2. CFOs and CIOs should employ corporate performance management solutions as part of a broader business intelligence and performance management strategy, as a quick-win tactic in support of cost-control and revenue-optimization strategies.**

Financial and IT professionals in many midsize organizations often perceive that performance management are expensive and resource-intensive, suited only for larger organizations. Thousands of Cognos customers have proven this is not the case.

Deploying performance management should be viewed as a strategic initiative-so, it is important to think big. However, rather than taking an “all or nothing” approach, your organization can deploy tactically and progressively, connecting the initiatives together as they are added.

Cognos recommends the following best practice: Start by focusing on a key pain point. With Cognos, you can start anywhere, say, with just reporting, or analysis or planning, and add additional capabilities as the business grows and needs change.



Many successful midsize organizations have adopted this incremental, quick-win approach. The benefits of taking this approach are many: project rollout can match resource capacity and



“We rely heavily on Cognos to get our information out to our sales team. We are able to push our reports out to them, rather than have them access the reports online. That's been a big benefit for us and reduces the amount of time that they are spending in front of a computer. With this real-time access, our sales team has a leg up on the competition, and they can use this tool to increase the size of their accounts and even close major deals.”

*Michael Der, BI Systems Manager,  
Mark Anthony Group*

budget; your organization realizes business benefit quickly without the disruption of a “big bang” implementation; a successful implementation provides justification for further investment; and it allows rapid adjustments in response to changes in business objectives.

Cognos solutions are designed to be modular, allowing you to implement and expand capabilities as your needs dictate or as your company grows. Equally important is the ability to connect all the initiatives together for successful performance management deployment across your organization, reducing the need for multiple tools from multiple vendors and therefore minimizing complexity, resources, and costs.

**3. Organizations should realize that implementing a budgeting, planning, and forecasting solution can be achieved in less than three months and with a small budget that will deliver a quick return on investment.**

Cost, time to value, and making the most of IT resources are key challenges that midsize companies face, and performance management solutions must address these issues. All Cognos solutions for midsize companies are built to address ease of installation, deployment, and maintenance while providing intuitive interfaces for ease of use.

For example, the IBM Cognos TM1 MidMarket edition is about driving organizational effectiveness and efficiency in IT departments of midsize companies so that business and IT are aligned. Business users get the flexibility they want while reducing the demands on overstretched IT departments.

The solution provides accountability to the business with a rapid, business-centric application development environment which reduces the demands on IT. For IT, the installation is simple, with a self-tuning, in-memory data store that reduces the need for IT configuration resources. The solution is centrally managed by IT and is designed to accommodate a role-based security model and integration with existing security providers and disaster recovery plans, to ensure secure, coordinated management of the solution.

Lastly, the Cognos TM1 MidMarket solution has flexible pricing packages to fit the smaller budgets of midsize organizations. It has never been easier, or more affordable, for organizations to start down the road of performance management.

**A FOUNDATION FOR PERFORMANCE MANAGEMENT**

While midsize companies have the same performance management needs of larger rivals, they don't have the same budgets or resources. Reducing the total cost of ownership and achieving rapid return on investment are imperative. Business intelligence and performance management solutions need to leverage existing IT infrastructures and pre-existing assets and offer the option of flexible, incremental deployment. This enables companies to gain value from their investment today – and meet future demands as the business grows.

In short, small and midsize businesses need cost-effective performance management solutions that enable better decision-making. That's why Cognos develops business intelligence and



performance management solutions specifically to help midsize organizations *understand* and *decide*. Cognos enables midsize enterprises to:

- Improve customer loyalty and satisfaction through better customer insight
- Respond faster to changing market and business conditions
- Gain visibility into risk positions and risk exposures
- Reduce costs and improve productivity across business units, operations, or product lines.
- Get the detail behind the numbers to understand trends and spot anomalies.

Cognos solutions are designed to be modular, allowing you to implement and expand capabilities as your needs dictate or as your company grows. Equally important is the ability to connect all the initiatives together for successful performance management deployment across your organization, reducing the need for multiple tools from multiple vendors and therefore minimizing complexity, resources, and costs.

Let's go back for a moment to the three questions that drive performance—How are we doing? Why? What should we be doing? Answering these key questions requires an integrated, coordinated approach to collecting, managing and presenting information. Cognos delivers a comprehensive portfolio of solutions and capabilities to enable your business users to see the information they want, how they want it, and when they want it.

Cognos solutions are modular and designed to be implemented incrementally, so you can start small, start anywhere, deploy tactically, yet connect the initiatives together in a strategic roadmap. Solutions are packaged to suit your budgets and needs, including flexible delivery models.

Understanding the need for easy deployment and maintenance for resource-constrained IT departments, Cognos has built its solutions on open standards, Web services, and an SOA architecture designed to leverage existing infrastructure and future investments. Cognos provides out-of-the-box support for all data sources, security, portals, and more, to ensure ease of deployment and minimal maintenance requirements.



#### Deliver key financial data anywhere, without duplication

Cognos has a network of over 3,000 partners ready to help accelerate your deployments and make you successful. Together, we have hundreds of solutions that we provide or are partner delivered to ensure the fastest possible time to results.

Source: Cognos



**FROM THE GARTNER FILES:**

## **COST CUTTING REQUIRES CORPORATE PERFORMANCE MANAGEMENT**

As financial market fears drive demands from the board to minimize costs and maximize profits, organizations are increasingly deploying corporate performance management (CPM) applications to help them make strategic decisions. CFOs and CIOs must investigate how CPM can assist their organizations in making the right strategic and operational decisions to streamline costs and optimize performance.

### **KEY FINDINGS**

- CPM acquisitions are largely driven by the CFO and finance function, and are increasingly viewed as a spearhead to assist cost-cutting and profit-optimization programs.
- Budgeting, planning and forecasting (BP&F) is an essential element of the strategy that sets financial targets for revenue, expenditures and cash generation. BP&F solutions are, therefore, an ideal initial implementation of an overall CPM strategy.
- Organizations should ensure that their BP&F implementations are not too narrow in scope but cover all the core budgeting, planning and forecasting business processes.

### **RECOMMENDATIONS**

- Organizations should replace legacy and spreadsheet-based solutions for BP&F with core CPM functionality.
- CFOs and CIOs should employ CPM solutions as part of a broader business intelligence and performance management strategy, as a quick-win tactic in support of cost-control and revenue-optimization strategies.
- Organizations should realize that implementing a BP&F solution can be achieved in less than six months and with a small budget that will deliver a quick return on investment.

### **ANALYSIS**

Financial analyst predictions indicate that economic growth will significantly slow in 2008. A softening economy is typically an early warning to CEOs and CFOs of troubled times ahead, particularly for those in business-to-consumer markets. Consequently, many boards are re-evaluating their internal costs to ensure the operation is as efficient as possible. As part of a cost reduction exercise, the office of finance is looking to analytic applications to assist them in making the right strategic and operational decisions to streamline costs and optimize performance.

Organizations that lack sufficient clarity or sophistication in the execution of their financial processes should consider CPM. CPM solutions provide a more detailed and accurate measurement of current performance and enable organizations to better manage future performance.



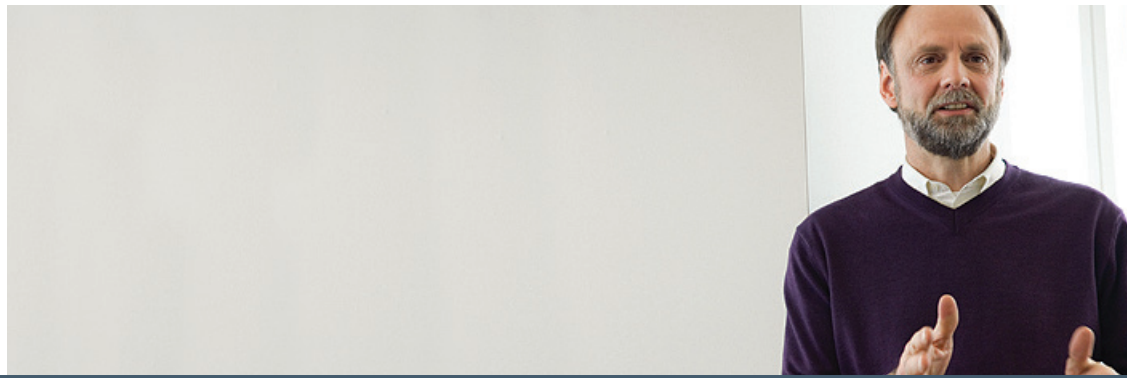


Implementing a full CPM strategy is a nontrivial task that should comprise BP&F, financial consolidation, statutory and financial reporting, scorecarding, strategy management and profitability modeling, and optimization. Rarely does an organization attempt to implement all these components simultaneously. Instead, most organizations tend to investigate where the biggest return can be generated with a focused multiphased approach. Narrowing the initial scope to one or two areas enables an organization to concentrate its resources more effectively and to more easily adopt the business process and cultural changes that the new components will prompt.

For the initial phase of a CPM program, companies often select BP&F because it offers a range of short-term benefits. Among other things, a CPM application:

- **Replaces spreadsheet-based systems.** If corporate budgets are held in spreadsheets, then it is virtually impossible to understand the impact of changes in detail budget items on the overall budget without going through a time-consuming process. CPM applications will show the impact of potential budget changes on future financial performance in minutes or even seconds. The CPM application can contain greater levels of detail and complexity than is possible in spreadsheets, and allows the relationship between different aspects of the budget to be held in a single model.
- **Provides a sophisticated modeling environment.** One of biggest challenges management faces during uncertain economic times is modeling the impact of potential budget changes on financial performance. They need to answer questions such as: What would be the profit impact of delaying a product launch? What would be the impact on profits of offering discounts to increase sales volume? CPM applications provide sophisticated and powerful modeling and "what if" calculations, including, in some cases, a "break back" capability that allows for high-level budget changes to be spread back across contributing budget items quickly and easily.
- **Provides a collaborative modeling environment.** Instead of asking managers to work in isolation on disconnected spreadsheets, most CPM applications enable managers to work collaboratively on a shared model to create shared cost-optimization strategies. This not only builds buy-in, but also enables managers to proactively explore cost optimization opportunities without waiting to receive a mandate from top management.
- **Provides an audit trail of changes.** If changes need to be made in response to rapidly changing market conditions, then changes can be tracked to ensure they are clearly communicated to budget owners.

BP&F implementations also provide many intangible benefits, such as achieving compliance initiatives more effectively, providing greater agility, ensuring financial accuracy, supporting decisions better and contributing indirectly to meeting key business challenges, such as cost and profit optimization. When selecting BP&F applications as a starting point for a full CPM program, implement a solution that encompasses:



- **Budgeting** – Involves defining a short-term (typically one year), financially oriented plan, which sets financial targets for revenue, expenditures and cash generation. Budgeting is presented in the form of financial statements (profit and loss, balance sheets or cash flow). In a cost-cutting scenario, the key use case is to quickly identify where programs and departments have overspent and then develop remedial actions.
- **Planning** – The process of creating a plan of business activities that spans any time frame, from short term (one year or less) to long term (typically more than five years). Planning focuses on activities that are performed with some supporting financial information (such as a marketing plan), or it may be a long-term summary financial plan to evaluate the effects of alternative strategies (such as merger and acquisition activity). The key use case is in optimization, to create plans where resources (assets and labor) are directed toward the most profitable business processes.
- **Forecasting** – Extrapolating new versions of plans and budgets based on the analysis of historical data. Forecasting can be simple (for example, add three months actual data to nine months budget data) or sophisticated (based on statistical techniques). In a cost-cutting environment, forecasting can more accurately estimate demand to ensure that assets, such as inventory or staff, are not overallocated.

Unlike ERP systems, CPM applications, in particular BP&F analytic applications, can provide a short-term payback and, therefore, are ideally suited to provide a quick win to support cost and optimization initiatives. This is because BP&F affects most parts of the organization and many users, and it is pivotal to the definition and communication of the business strategy (supported with planning) and tactics (supported with budgeting). CPM applications can be implemented quickly and relatively easily because integration with underlying systems is relatively straightforward.

A BP&F application can be implemented with a relatively small budget, typically between \$200,000 and \$500,000, and within two to six months. Benefits can be realized almost immediately, because a new BP&F system will save a considerable amount of routine and manually intensive time associated with the BP&F processes. However, it will also increase organizational agility, enabling the finance organization to spend more time in value-added activities focused on identifying cost savings and revenue optimization. Hence, a tactical purchase of a BP&F analytics application is a good way to start an overall revenue and cost-optimization program, provided that the purchase is considered in the context of an overall CPM strategy. The strategy should encompass subsequent phases and other components of the CPM suite, and should complement the company's business intelligence technical infrastructure.

Gartner RAS Core Research Note G00155089, Neil Chandler, 27 February 2008



## ABOUT COGNOS

Cognos, an IBM company, is the world leader in business intelligence and performance management solutions. It provides world-class enterprise planning and BI software and services to help companies plan, understand, and manage financial and operational performance. Cognos was acquired by IBM in February 2008. For more information, visit [www.cognos.com](http://www.cognos.com).

### FOR MORE INFORMATION

To learn more about Cognos solutions for the midsize enterprise, visit [www.cognos.com/solutions/industry/small-midsize-businesses](http://www.cognos.com/solutions/industry/small-midsize-businesses).

### REQUEST A CALL

To request a call or ask a question, go to [www.cognos.com/contactme](http://www.cognos.com/contactme). A Cognos representative will respond to your enquiry within two business days.

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