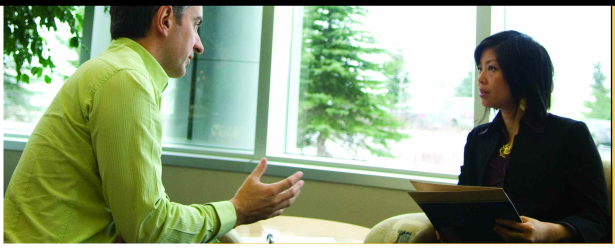
RETAIL PLANNING, BUDGETING, AND FORECASTING SOFTWARE GUIDE



TECHNOLOGY AND BEST PRACTICES FOR BETTER PERFORMANCE

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INTRODUCTION

In retail, enterprise planning is a crucial component of financial and operational management. It contributes to a company's overall success or failure. But despite its importance, planning is often seen as burdensome and time-consuming. And frequently, it isn't tied into company performance objectives or measures. Therein lies an opportunity for the forward-thinking organization.

Leading retailers address planning obstacles and improve processes. They take an integrated approach to performance management, leverage new technologies, and employ planning, budgeting, and forecasting best practices. They are rewarded with more accurate plans, timely re-forecasts, effective decision-making, and profitable growth. Overall, they save time, reduce errors, collaborate enterprise-wide, and foster a disciplined financial management culture that delivers true competitive advantage.

Specifically, they are able to:

- Consistently deliver more timely, reliable, and flexible plans.
- Align corporate and store operations around revenue and profitability targets.
- Improve communication and collaboration among managers.
- Enhance strategic decision-making, enabling leaders to quickly identify, analyze, and forecast the impact of changes as they occur based on performance of key metrics.

This guide will help you take the first steps toward improved performance management—enterprise budgeting, planning, and forecasting across all functions. It outlines a systematic approach that combines best practices and leading-edge technology with planning activities in your organization. By taking this approach, you can significantly improve financial and operational performance.

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"Finance executives believe they spend too much time on forecasting, budgeting, and planning. When asked about the most acute problems with their current planning process, more than 60 percent said it 'takes too long.' Nearly 43 percent said 'not enough time to analyze data,' and more than a third cited 'lack of ownership by business units.'"

CFO Research Services

PLANNING CHALLENGES

In retail organizations, corporate decision-makers typically voice similar concerns with regard to planning, budgeting, and forecasting:

- Processes are tedious and time-consuming.
- Changes are difficult to implement.
- Data integrity is questionable.
- Explanation of variances is difficult.

For managers outside finance, planning can appear to be little more than a periodic invasion of their time with minimal benefit. Managers can feel besieged by demands for information and improved projections, while still being expected to deliver results

Origins of planning challenges

Retail companies have devoted considerable resources to supporting operational systems. Yet most planning is still performed using spreadsheets—an approach that's cheap in software terms, but costly in the long term because spreadsheets are not effective in managing large amounts of data. Among other things:

- Business rules (formulas) are mixed with data and prone to corruption.
- Files must be sent backwards and forwards.
- Presenting or analyzing data from different perspectives isn't easy.
- Data aggregation is difficult and time-consuming.
- Complex calculations aren't supported.
- Multidimensional reporting and analysis are impossible.
- Understanding plan status and managing workflow is difficult.

SUPPORTING BEST PRACTICES

Planning software should support best practices that enhance timeliness, information reliability, and participation by key people across the retail business.

Align finance with operational plans – store and channel operations, marketing, merchandising

The ongoing alignment of strategic and operating plans is vital. Because of its responsibility to engage all functional areas in the planning process, finance must clearly communicate corporate strategic plans to those who run the day-to-day business.

Finance can help translate strategic goals into financial targets and then into specific departmental plans and related revenue and expense drivers such as labor and supplies, campaign spend, sales, and markdowns. By translating strategic goals into operational plans, and by tracking and measuring performance against plan, companies are better able to meet or exceed objectives.

Start at the top – and at the bottom

An important ingredient in successful budgeting and forecasting is the ability to align top-down financial targets with bottom-up plans. Some companies establish top-down targets and then turn the annual budgeting process over to finance along with a mandate to meet those numbers. Other companies require detailed bottom-up planning, and then plug the total company numbers in at the top, so the plan meets strategic targets. Neither of these approaches reflects a commitment to planning excellence.

Instead, retail organizations should provide initial guidance from senior management's perspective on strategic goals, objectives, and expectations. So merchants, marketers, and store operations managers can build their plans, indicating how they intend to meet established goals. The process requires frequent iterations for these approaches to meet and be reconciled.

"IBM Cognos Planning gives us access to financial data and ongoing forecasts, resulting in greater visibility across our entire operation. Now, more than 200 users contribute to the planning process. Finance forecasts cruise revenues and expenses. Tour planning manages revenues for land-based tours. Human Resources ensure proper staffing. Shipboard facilities control inventory and plan revenue for boutiques and restaurants. Having a centralized planning process brings together all our data, and our planning and performance management processes are more efficient, accurate, and complete."

Howard Plocky,
Senior Financial Planning
and Systems Analyst,
Princess Cruises

The result is a plan that is supported by:

- Managers in operational areas because they help create it and will be rewarded for meeting it.
- Senior management because operational goals are aligned with strategic goals.
- Finance because they add value to a productive, collaborative effort, rather than demanding participation in a mere exercise.
- Consensus between finance and operational areas, closing the gap between corporate strategy and field execution.
- A single, integrated tool for all plans and performance management.

COGNOS CUSTOMER PROFILE: BEST BUY

Best Buy spent four years overhauling its approach to planning. Previously, corporate officers made broad assumptions about the needs and capabilities of the company's stores—and budgeted accordingly. Now, senior management gets that information directly from those in the trenches.

An important part of this, says Jean Nitchals, senior financial analyst at Best Buy, was designing operational metrics that make sense to the business operators but also have an impact on corporate results. "We in finance act as a mediator, translating the results of their metrics into financials," she says.

The metrics for Best Buy's call centers illustrate the approach. Finance employees conducted extensive interviews with the managers and business analysts who oversee the customer-service operation. Finance managers determined that it wasn't enough to merely measure the costs of running a call center. They decided that Best Buy should track the factors that affect those costs.

These are numbers that are already familiar to call-center managers, things like the time that operators spend on the phone with customers or whether calls come from users of the company's Website or customers who shop in its stores. The measures give an early indication of the costs the call centers will incur and are more useful for managers hoping to achieve their budgeted targets.

Managers and analysts enter the data directly into the company's budgeting system, where it can be converted into financial measures that are used in the budget. "This is really activity-based costing," says vice president of finance Marc Gordon, "with an eye toward predictive ability."

Source: Don Durfee. *The Last Mile*. CFO Magazine. January 10, 2007

Drive collaboration between functions

Not only should strategic and operating plans be aligned, but plans between all functional areas should also be coordinated. Best practices include direct involvement by business managers along with a collaborative approach to budgeting and forecasting.

In addition to understanding strategic goals, managers also need to know what other functions are involved in planning. For example, if a company is planning to add a new department, service, or product line, timelines and information need to be communicated to store operations so managers can plan for operational impact. During a remodel, sales would likely decrease. So staffing and inventory would have to be adjusted accordingly, merchandising would need to plan for the new goods, and marketing would likely develop promotional campaigns and finance to measure ROI.

Such collaborative planning can be accomplished through an iterative process where managers forecast and share alternative scenarios. Finance also plays a key role in facilitating the coordination of plans, which helps ensure that operational tactics are aligned with financial targets throughout the organization. Instead of everyone planning in their own silos, it's much easier to gain consensus through a single, coordinated effort.

Adapt to changing business conditions

Retail businesses need to adjust plans, metrics, and resource allocations in response to market and internal variability. In this case, dynamic re-forecasting is required:

- **Frequent re-forecasting.** Forecasting may be needed monthly or even bi-weekly especially in fast-moving, quickly growing businesses with multiple market pressures. Continuous re-forecasting helps managers answer critical questions such as: What did we expect? How are we doing against our plan? How should we adapt our plans going forward?
- **Rolling forecasts.** A company running rolling forecasts is always looking forward to the immediate or near-term future. For them, business doesn't end on December 31st and restart on January 1st. The forecast timeframe should extend out two to eight quarters, depending on business volatility.

Planning should be an ongoing process with frequent opportunities for managers to view the company's latest internal and external performance data. They should be able to alter plans based on new information coming from sources such as other managers, monthly actuals, and top-down target revisions. Finance should be able to quickly consolidate plan data from all areas of the company, and to disseminate new information in real time. This process facilitates more informed decision-making in areas such as market trends, pricing changes, capital allocations, or organizational changes.

Model business drivers

A first-rate budget or forecast is based on a model with formulas that are tied to fundamental business drivers. Simply importing and manipulating past actuals doesn't reflect underlying operational causes and financial effects. Building driver-based models into plans ensures appropriate consistency across functions and promotes planning coordination between functions.

For example, future revenue forecasts can be tied to the merchandising and marketing spend needed to generate a given number of sales. Finance can provide managers with a useful model that includes information about past actuals and current headcount, as well as formulas driven by assumptions.

This does not violate the best practice that requires department managers to be responsible for creating their own budgets. Instead, it saves them time by providing a solid, fact-based baseline—a starting point that contains important information about the organization's relationships to other functions. Managers can then make adjustments to this baseline based on the latest business conditions. This approach also ensures collaboration across functions.

Manage content that is material

A focus on material content in budgeting frees managers from unnecessary detail, enabling them to produce better plans. While supporting detail can provide an audit trail and insight into managers' thinking, more detail doesn't necessarily make a better plan. Managing material content requires attention to whatever has real and significant impact on expenses, revenues, capital, or cash flow. Content management helps a retail organization:

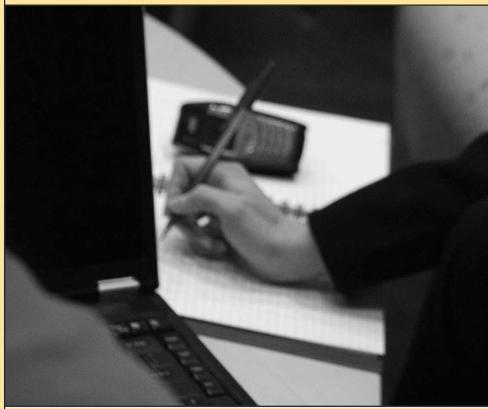
- Avoid false precision. A complex model might not have any more precision than a simpler model. More detail and intricate calculations can lure managers into the trap of thinking their plan is more accurate.
- Monitor volatile, not stable, accounts. Efforts are best spent on fluid expenses such as headcount.
- Aggregate accounts. The budget does not need to reflect the same level of

detail as the general ledger. Even if the GL has 15 different travel accounts, managers can often plan in one.

Timeliness and reliability

Many companies have an inefficient and inflexible planning process, at the center of which is the annual budget. Time-consuming distribution and consolidation processes practically guarantee that plan data is out-of-date and irrelevant before it is published—and plans based on stale data and assumptions are of no value.

Leading retail chains shorten their planning cycles by implementing the best practices described here. They also leverage technology so they can manage budget consolidation and aggregation in real time. Technology can help improve timeliness and reliability in the area of plan consolidation.



Real-time plan consolidation eliminates the need to process results manually, and enables a smoother, more consistent and more accurate planning process. Variance reports delivered within two to four days from the period close allow managers to immediately evaluate their performance against plan, and then effectively adjust their businesses.

At an operational level, this type of planning is less costly and produces more accurate results. At a strategic level, a company's ability to create timely and reliable financial plans provides more credible guidance to stakeholders, and enables faster, informed business decisions.

Best-practice templates

The use of pre-built, best-practice templates or planning models can help organizations reduce implementation risk and accelerate time to business value. With templates, companies can establish dynamic connections that keep strategic objectives, operational plans, people, and initiatives in sync as business conditions change. Executives can quickly see the impact of changes in operational plans on corporate financials. Regional and store managers can adjust resource allocations to support corporate objectives. And corporate guidelines and policies are more consistently communicated and applied throughout the business.

IBM COGNOS PERFORMANCE BLUEPRINTS TO JUMP-START YOUR PLANNING

In most retail organizations, budgeting and planning is often done in silos, where each department completes its own bottom-up initiative. This makes it difficult for the business to keep pace with changing consumer needs, trends, and shifts in the marketplace. In a fast-moving industry like retail, these bottlenecks can mean the difference between high profits and bankruptcy.

Blueprints connect departments and drive continuous collaboration. The Blueprints are pre-built data models that provide streamlined planning, forecasting, analysis, and reporting functionality. They extend the planning process beyond corporate finance to operations, marketing, and merchandising—to manage to a single set of financial objectives and business goals.

Blueprints give finance more time for analysis and rolling forecasts. What emerges is a dynamic retail business that adapts quickly to trends, new consumer demands, competitive challenges, and changing markets—from corporate to the storefront.

For more information on Blueprints, visit:**www.cognos.com/solutions/retail**

TECHNOLOGY THAT SUPPORTS BEST PRACTICES

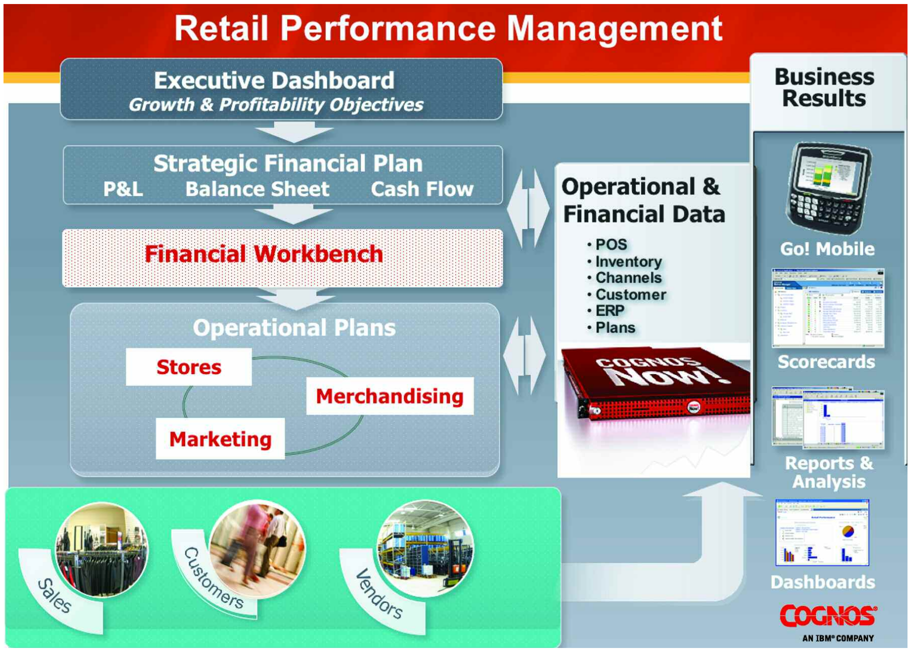
Leading retailers recognize that spreadsheet-based planning impedes budgeting and forecasting best practices. Instead, they've moved to purpose-built applications with lean infrastructure requirements, which allow them to accurately plan and re-plan quickly, using the same or fewer resources than before.

Streamlining the planning process demands technology that can support a faster, more flexible and adaptive approach. By using on-demand, dedicated planning, budgeting, and forecasting that is delivered over the Web, organizations can readily implement best practices.

Leading companies formulate top-level requirements for evaluating and selecting world-class planning, budgeting, and forecasting software. Solutions must be:

- **Integrated.** Strategic, operational, and financial planning resides in one system. Managers do not need to maintain "shadow" planning systems.

- **Collaborative.** Web-based, distributed planning enables broad participation. The ability to use a secure Web connection allows everyone to access budget information wherever there is Internet connectivity.
- **Adaptive.** Simplified version control and the ability to frequently reforecast allow companies to respond to business changes with what-if scenarios as often as necessary.
- **Timely.** Information is always current, because department users contribute directly to a central planning database. Since consolidations and rollups are done automatically, deadlines are more easily met.
- **Efficient.** Finance managers and department managers spend less time managing data and more time managing the business.
- **Relevant.** Customized views for managers increase adoption and ownership. Formula capabilities enable modeling of all relevant business drivers.
- **Accurate.** Plans contain fewer errors since broken links, improper rollups, and missing components have been eliminated.
- **Owned by finance.** Finance must be responsible for planning process development, deployment, reporting, and analysis. This calls into focus product flexibility and ease-of-use, both in modeling and day-to-day activities.



Cognos, an IBM company, provides an integrated performance management solution for retailers. We link the key functional areas—store and channels operations, marketing, and merchandising—with finance and executive management. So all parts of the organization work toward a single set of business goals and financial objectives.

SELECTING THE RIGHT PLANNING SOFTWARE

Evaluating a vendor's product features and support is a complex task. It requires assessment of software functionality, its value to the planning process, and its ability to support planning best practices. There are also intangibles like vendor support, user community, and commitment to customer success once the sale is complete.

The key is not just to evaluate product features, but also how the features are implemented and by whom. It's important to test a planning solution that will be relied upon by a large number of stakeholders and play a critical role in organizational performance.

A workshop approach should be used to evaluate not only solution features, but also the way a plan is constructed, distributed, and reported on. A business process should be defined (e.g., capital, headcount, or expense) as context for the evaluation of product features and intangibles such as ease of development, roles, references, and customer support.

To support your evaluation process, the following matrix outlines best practices and features, as well as how to prioritize them, and assess how well they relate to vendor offerings.

For more information about IBM Cognos Planning, see the related document *Selecting the Right Retail Planning Solution*. The guide outlines key factors to consider when evaluating retail enterprise planning solutions. It also makes the case for Cognos as the best-in-class planning and performance management software provider.

PLANNING SOFTWARE SELECTION MATRIX

Feature Category	Importance/ Weight (1 "least important" to 5 "most important)	Vendor 1 (Weight * Score)	Vendor 2 (Weight * Score)	Vendor 3 (Weight * Score)
Align Strategy & Operational Plans				
Module Application Development				
Application Linking (Planning- specific application modules can be developed one-at-a-time, then linked to model the entire company. Aligns operational planning with financial planning to improve decision-making.)				
Model Business Drivers				
Driver-based calculations				
Dimension separate from models				
Multi-cube development environment				
Driver-based calculations				
Finance-based functions				
Time intelligence functions				
Ease of development by finance				
Manage Content				
Real-time workflow				
E-mail alerts				
Input validation				
Role based security				
Real-time calculations				
Web client				
Excel client				
Offline capabilities				
Annotations support				
Supports Timely & Reliable Planning				
Real-time plan consolidation				
Automated data loads between transactional systems				
Certified connector to ERP				
Standard reporting				
Multi dimensions analysis				
Dashboard and scorecarding				

	Importance/ Weight (1 "least important" to 5 "most important)	Vendor 1 (Weight * Score)	Vendor 2 (Weight * Score)	Vendor 3 (Weight * Score)
Best Practices Templates (pre-built models)				
Allocation planning				
Capital expenditure planning				
Expense planning				
Initiative planning				
Risk analysis				
Integrated income statement, balance sheet, and cash flow				
Sales forecasting				
Strategic planning				
Workforce planning				
Company Profile				
Quality of references				
Revenue				
Number of employees				
Number of customers				
Number of industry references				
Independent industry analyst ratings				
Implementation and Support				
Implementation methodology				
Training options				
Support hours				
User communities				
Customer forums				
Online knowledge base				
Partner network support				
Vendor consulting				
Quality of documentation				
IT Infrastructure Support				
Database support				
LDAP support				
Single sign-on				
Portal support				
Open API				
MDX support				
HTTPS support				
Total Score				

ABOUT COGNOS, AN IBM COMPANY

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 **http://www.cognos.com.**

FOR MORE INFORMATION

Visit the Cognos Web site at www.cognos.com

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

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