Transforming performance management by embracing, enhancing and extending investments in SAP® software

Considerations for Finance

Cognos® software

Contents

Abstract

This white paper is aimed at finance professionals with responsibility for planning, budgeting, and forecasting in an SAP environment. It discusses some of the essential functional and technical requirements for planning on an enterprise scale, and explains the unique value of the IBM Cognos® 8 Planning solution.

Overview

In the realm of enterprise software, SAP software is unique in terms of its size, its reach, and the extent to which large, global companies rely on it to manage their businesses. It is no exaggeration to say that SAP solutions are a critical component of the information infrastructure of the world's largest and most successful companies.

Businesses derive tremendous value from their SAP deployments. Yet while every SAP "ecosystem" is unique, all share common characteristics and present common challenges. Among the most pressing is the need to deliver functionality with a comprehensive planning, budgeting, and forecasting solution that:

• gives finance professionals critical modeling and analytic capabilities;

• allows non-finance employees to contribute to plans and forecasts as needed; and,

• offers executives predictive capabilities for insight into likely future performance.

IBM Cognos 8 Planning was developed to meet this growing need. As part of the IBM Cognos 8 platform, Cognos Planning provides direct access to data housed within the SAP NetWeaver® Business Warehouse, flexibility for importing Business Warehouse meta data into Framework Manager, ability for IT to control exposure the business user of only what is required, shielding business users from the complexity that often accompanies use of data from the Business Warehouse, and complex modeling capabilities that can be performed once and then used consistently across the IBM Cognos 8 platform, and you can leverage all your investments in the Business Warehouse with IBM Cognos 8 BI.

Your staff can take ownership for their department or personal plan objectives and answer the question, "Are we making progress on the things that must be done?" Their scorecard metrics are interdependent, so your staff can see the effect that one department's performance has on another and engage in proactive cooperation across the business.

The decision to implement a planning tool is a big one that involves a variety of considerations. Can the vendor demonstrate real driver-based models based on your requirements, something only a live demo can give you? Does the vendor have finance references, not just IT references? Is the vendor positive toward and committed to your investments in SAP data and applications? Does the vendor have a heritage that shows a commitment to innovation?

With IBM Cognos 8 Planning you can answer each question with "Yes."

Business problems

Why transform?

Before discussing solutions for planning in an SAP environment, it's important to ask: "Why do anything at all?"

The most common complaint about in-place planning processes is that they consume too much time. But the truth is that, even though saving time is important, the main reason companies want to update their budgeting and planning processes is to gain access to more effective performance management tools.

The first thing on the process-change agenda is improved accuracy in performance information. Second is a closer alignment of resources and objectives across the organization so that, for example, marketing and sales are not working at cross-purposes. Third is greater responsiveness, so that the business can adjust more quickly to changes in the environment and minimize their impact on expected results.

The primary reason, then, to consider changing your current processes is to transform planning into a key management asset for improving profitability and competitiveness, not just performing an annual exercise in financial control.

Defining terms: Planning vs. budgeting

Although the terms are frequently used interchangeably, planning and budgeting are — or should be — seen as two distinct processes. The point of budgeting is to impose fiscal control on the organization — to understand the costs of doing business and provide an initial resource allocation.

The objectives of planning are to (1) understand the business's performance potential, (2) communicate the plan for reaching that potential — including resource allocation — to stakeholders, (3) analyze variances against the plan at appropriate intervals, and (4) identify actions for responding to those variances.

Briefly put, budgeting is a way to understand the business at a point in time, while planning is a process for obtaining a forward view of the business, one that adapts to changes in market conditions, customer behavior, and resource availability.

Business drivers

The changing nature of enterprise planning

The evolution of planning over the past 20 years has closely paralleled the evolution of information technology. Understanding the evolution of planning technologies and processes is important to understanding how developers of IBM Cognos 8 Planning arrived at their different, yet complementary approaches to financial application development.

In the 1980s, the annual plan was *de rigueur*, and the introduction of the spreadsheet greatly reduced the time it took to create a plan. Nevertheless, half the fiscal year could easily go by before a plan was "final," by which time new business realities often rendered the plan irrelevant.

In the 1990s, quarterly plans became more common, as technology easily facilitated more frequent data collection. However, with some exceptions for seasonality, so-called "straight-line planning" remained a common practice: Take last year's or last quarter's result, add ten percent, and — *voilà!* — next quarter's plan.

By 2000, the "next big thing" was in sight: continuous rolling plans and forecasts. However, the limitations of the dominant technology for planning and forecasting — the spreadsheet — were becoming apparent. While the spreadsheet had done much to automate budgeting, many organizations began to realize that automating a flawed process returned only limited benefits. The search was on for a true planning application, one that could provide a better view of likely future outcomes.

Two types of technology vendors attempted to address the growing need for an enterprise-class planning solution: those whose strengths were in data collection and aggregation on a massive scale — and those whose strengths were in developing solutions for complex financial modeling, as seen in IBM Cognos 8 Planning.

Functional, technical, and cultural considerations

Five years ago, the functionality gap between dedicated planning solutions and transaction-oriented systems such as SAP software was very wide indeed. Since then, most ERP vendors have recognized that planning, forecasting, and other critical finance functions have unique requirements that cannot be met merely by aggregating massive amounts of data.

There is now, for example, widespread recognition that planning is an inherently multi-dimensional process. That is, companies want and need to set goals and analyze performance from multiple perspective — products, regions, time periods, and so on. This has led to advancements in how multi-dimensional data foundations are implemented.

That said, ERP applications remain fundamentally transaction-based systems. IBM Cognos 8 Planning, by comparison, was conceived from the beginning as a solution for the calculation-intensive, forward-looking requirements of enterprise planning.

Let's examine four key characteristics of planning as a business process and, further, discuss how IBM Cognos 8 Planning extends the value of your investments in SAP data and applications.

Planning is forward-looking

The most important characteristic of planning compared to other business processes is that it is forward-looking. Many ERP implementations are designed around legal entities and financial reporting structures, and as such are focused on actuals. In planning and forecasting, however, finance is most often asking: What are my new products? Who are my future customers?

Plans almost always involve anticipated organizational changes, changes to the product mix, adjustments to the legal structure (i.e., through acquisition or divestiture), or other as-yet-undefined alterations to the business landscape. Thus the ability to model not just what is, but what may be is extremely important.

Most software vendors that offer financial applications have acknowledged this important attribute of planning and offer some level of what-if or scenario planning. What differentiates IBM Cognos 8 Planning and greatly enhances the value of SAP solutions, however, is a deep understanding of how frequently and how quickly finance must be able to make changes to planning models in a large, diverse organization.

Decisions about product introductions, acquisitions, staff reductions, and so forth are sometimes made in a matter of days. The demands placed on finance during these times are tremendous. The department's organizational credibility — and by extension the company's credibility with investors — hinges on how quickly and how accurately it can assess and communicate the likely outcomes of various courses of action. Even when time is not of the essence, finance still wishes to make required model changes quickly and easily, so its resources can be put to more strategic use. IBM Cognos 8 Planning adds value to SAP transaction and data "muscle" by freeing finance from a reliance on actuals and dependence on specialists for making changes to business models, hierarchies, and rules.

IBM Cognos 8 Planning addresses the forward-looking requirements of planning in two ways. First, it enables frequent contributions regarding performance against plan by hundreds or thousands of front-line employees, so finance has access to the most current intelligence about expected results. Second, it places ownership of business models and rules in the hands of finance. Finance personnel can change structures and underlying assumptions quickly and easily without dependence on IT and the delays that such dependence implies.

As anyone whose chief job responsibilities are supporting SAP software can tell you, claiming or assigning ownership of any specific functionality or technology can be challenging. In most organizations, for better or worse, SAP implementations are tightly controlled by IT and an elite corps of certified consultants and technicians. This approach, whatever its benefits in other areas, is simply not conducive to fast, responsive business planning.

Planning is deadline-oriented and calculation-intensive

SAP operational applications were designed to optimize the steady and continuous collection of data across the enterprise in order to streamline operations. Planning, by comparison, is characterized by sudden peaks in participation and system usage. The scenario is familiar to any manager with P&L responsibility: If plan or forecast contributions are due at 5:00 p.m. on a Friday, it's a good bet that more than half the contributing managers will wait until that afternoon to begin submitting data.

While enterprise systems have become much better at handling sudden, simultaneous usage by hundreds or thousands of users, planning adds another wrinkle to the scalability issue. Planning is a calculation-intensive process. It goes well beyond mere data collection to the relationship of data to other data, and the effect of changes in one part of a model on other areas of the model.

Unfortunately, zealous proponents of one approach or another for meeting this challenge cloud the discussion with technical arguments that may be interesting in a theoretical sense, but do little to alleviate the problem. [For proof, take note of the suspiciously growing number of companies abandoning planning implementations shortly after — or even during — rollout. Most companies expect to grow, and if a planning system won't easily accommodate 500 users, it surely won't accommodate 1,000.] The reality is that while full-client options are almost always undesirable, so-called "zero-footprint" clients using pure HTML are underpowered for the intensive challenges of enterprise planning. Likewise, Java™ components require instantiation at the start of every session, a pointless waste of bandwidth and processing.

How does IBM Cognos 8 Planning solve this dilemma? By using an intelligent distributed architecture that downloads a small calculation engine onto the user's PC the first time they access the system via Web browser. It's a one-time download that the system manages and maintains automatically. This persistent local calculation engine harnesses processing power in the desktop browser for local calculations, providing unprecedented scalability.

IBM Cognos 8 Planning is the only proven, scalable planning solution to provide sensible client processing, proper bandwidth consumption, and appropriate server resource usage.

Planning works better with more input, less detail

As noted, one of the strengths of ERP is its ability to collect, collate, and present information on a massive scale. One somewhat perverse result of this capability in large organizations is that the planning process has become crippled by the amount of information incorporated into plans and forecasts simply because it can be.

As David Axson writes, "It is not unusual for a company to develop a budget item for spending on photocopier paper in the third quarter of next year, but have little or no idea how much business it expects to generate with its 20 best customers."[1] He says further that the financial plan for the average company comprises 372 separate line items, but that best-practice companies operate with far less detail—as much as 80 percent less.

Asking for unnecessary detail in plans and forecasts creates unnecessary work for everyone involved in the process. It also encourages "gaming" and creates stress as employees plug in numbers they know they will later have to create a rationale for. Worse—in the case of revenue forecasts—is the prospect of overconfident (or fearful) employees plugging in numbers they think management wants to see, regardless of business realities. Either way, it's a case of process overcoming purpose.

Because the type of sandbagging described has long been a feature of corporate planning and budgeting practices, IBM Cognos 8 Planning was built from the ground up as a driver-based solution. That is, contributors are asked to input data in terms that are relevant to them—units sold, hours worked, trips planned—while the software calculates the effects based on underlying assumptions that are modeled by finance.

Look at it this way: There is a vast difference between asking a manager "How much do you plan to spend on computers, phones, supplies, benefits, travel, and overhead for new employees next year?" versus "How many new people do you plan to hire?" Asking plan contributors to provide inputs in terms that are meaningful to them increases participation and buy-in to the plan, and has an even more important benefit for finance: the use of common assumptions across the organization, and control over those assumptions.

Here's a practical illustration. Answering the question, "What are our total headcount and compensation costs?" is a first step toward understanding how employee-related expenses affect the P&L. But headcount can also be a major driver for diverse areas of the business. For example, IT-related expenses can be very headcount-dependent. If IT knows that a given department plans to increase headcount by 15 percent in the coming year, it can use that information in developing its own plans—or better yet, let the software do it. Other areas of the business like training and facilities can also benefit from accurate projections regarding headcount. Key performance metrics like sales volume—if, for example, revenue projections are tied to revenue productivity of sales staff—can also be highly dependent on headcount. A well-designed, driver-based planning model can take these inter-relationships into account and work out the ramifications of changes to plans and forecasts across the enterprise and in real time.

Even better, once the assumptions behind plans and forecasts are more visible, one can examine and challenge the assumptions, rather than the raw data, leading to infinitely more productive discussions about projections and adjustments to plan.

The solution

IBM Cognos 8 for use with SAP NetWeaver

IBM Cognos 8 Planning enhances SAP applications by allowing companies to optimize existing strategic investments while enjoying all the benefits of a proven planning solution — high frequency, high participation, automated workflow and approval, maximum control, a single, up-to the-minute view of the enterprise, as well as delivering broad functionality and with ease of use.

IBM Cognos 8 is interoperable with the SAP NetWeaver Business Warehouse and provides:

• Fast, direct access to data housed within the Business Warehouse

• Flexibility to import meta data from the Business Warehouse into Framework Manager

• IT Control over business user access to data within the Business Warehouse

• Shelter business users from complexity that often accompanies the retrieval and presentation of data from the Business Warehouse

• Complex modeling capabilities that can be performed once and then used consistently across the IBM Cognos 8 platform.

IBM Cognos 8 Business Intelligence (BI) is a Web-based solution that keeps plans alive by communicating key drivers, performance expectations, and results to employees. With IBM Cognos 8 BI, your staff can take ownership for their department or personal plan objectives and answer the question, "Are we making progress on the things that must be done?" And like the drivers in IBM Cognos 8 Planning, scorecard metrics are interdependent and make visible the effect one department's performance has on another, leading to proactive cooperation among different areas of the business.

Many business users users look to Business Warehouse to provide the operational and management data. Yet even within SAP environments, reporting fragmentation remains — just as it does for planning — due to the vast stores of non-SAP data that must be integrated into the process.

IBM Cognos 8 BI enhancesthe value of data residing within the Business warehouse by drawing data from IBM Cognos 8 Planning, SAP, and non-SAP data sources to offer self-sufficiency for reporting end-users, management and operational reports for report consumers, and ad hoc query capabilities and interactive reports for advanced finance users.

Given the Business Warehouse embodies many built-in rules including multi-lingual, multi-currency, multiple units of measure, data hierarchies, aggregates, and variables, IBM Cognos 8 BI can embrace, enhance and extend your investments in the Business Warehouse. IBM Cognos 8 retains the complete Business Warehouse metadata structure to provide continuity and integrity in reporting. IBM Cognos 8 BI can also handle multiple currencies, so users can easily see, group, and track the various currencies they work with and work in.

IBM Cognos 8 Business Intelligence

IBM Cognos 8 BI complements and leverages the immense business value of the SAP NetWeaver Business Warehouse. IBM Cognos 8 provides greater numbers of users unprecedented access to all enterpirse data, as well as the ability to work with and share that information in a way that suits them best.

IBM Cognos 8 BI holds certified integrations for proven interoperability with the SAP NetWeaver Portal, Web Applications Server, Business Warehouse and ECC.

Recommendations and next steps

"Cognos has helped us to increase the transparency of all aspects of our business and financial situation on a daily basis [...] Through our investment in the combined solutions from Cognos and SAP, we are accelerating the pace of business processes at Deutsche Funkturm and gain a distinct competitive advantage."

Manfred Wiedemeier, Finance Director, DFMG Deutsche Funkturm GmbH

Many organizations with massive investments—and confidence—in their SAP systems have turned to IBM Cognos software to transform their planning. Why?

The answer is that IBM Cognos 8 Planning is the only enterprise solution that:

• is purpose-built for the unique requirement of business planning;

• fully leverages and extends the immense business value of SAP applications and data sources; and,

• integrates seamlessly with IBM Cognos 8 BI for scorecarding, management, and operational reporting.

If you are considering a change in your planning process, IBM encourages you to make the following part of your evaluation process:

• Insist that vendors demonstrate real driver-based models based on your requirements. Most can demonstrate simple expense models (the classic "budgeting" scenario), but will be challenged by more complex requirements such as headcount and compensation planning or capital project planning. Be sure also to insist on a live software demonstration, not a "canned" demo or screen shots.

• Request finance references, not just IT references, as part of your due diligence. An inability to supply finance references usually signals that a vendor's solution is owned by IT, despite what they may tell you.

• Consider the vendor's attitude toward and commitment to your investments in SAP. During the evaluation process do they attack or appear fearful of your SAP investment? Or do they acknowledge and embrace the important role your investment in SAP applications plays in your business? Few vendors share the IBM passion for extending the value of SAP solutions.

• Finally, as with all technology purchases, consider each vendor's heritage and commitment to innovation. By any measure, IBM Cognos software is the unquestioned leader in financial performance management (FPM), encompassing both enterprise planning and business intelligence. This claim is not marketing hyperbole. It's based on documented deployments involving thousands of companies around the world. Only IBM Cognos software offers SAP customers a comprehensive solution—both the technology and the expertise—to proceed with confidence to the next level of performance.

Conclusion

Planning, budgeting, and forecasting is faster and more reliable with the right planning software. IBM Cognos 8 Planning helps finance professionals achieve those plans, budgets and forecasts faster than ever possible using time-consuming and unwieldy spreadsheets. Instead, they get:

• fast, direct access to data housed within the SAP NetWeaver® Business Warehouse;

• ability for IT to control exposure the business user of only what is required;

• the ability for business users to embrace the use of data from the Business Warehouse without the inherent complexity; and,

• complex modeling capabilities that can be performed once and then used consistently across the IBM Cognos 8 platform.

With IBM Cognos 8 Planning, it's never been easier to answer the question, "Are we making progress on the things that must be done?"

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.

For further information or to reach a representative: www.ibm.com/cognos

Request a call

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

Endnotes

1 *Best Practices in Planning and Management Reporting: From Data to Decisions*, 2003, John Wiley & Sons, p. 60. Transforming Performance Management in an SAP environment

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