

THE WATERTIGHT ORGANIZATION

PLUG THE LEAKS
DRAINING RESOURCES
WITH COGNOS
PERFORMANCE
APPLICATIONS



COGNOS®

THE NEXT LEVEL OF PERFORMANCE™

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ANALYTICS AND THE COORDINATED ORGANIZATION

How often have you said to yourself “It should be easier than this to get the data”? How about: “This information should be at my fingertips”?

Difficult access to information and lack of common understanding of information are major sources of lost productivity in organizations. They delay decisions. They sap momentum. They blur direction. In a recent study featured in *CIO Magazine*, over 75 per cent of managers surveyed said they missed opportunities because they didn’t make decisions fast enough. These lost opportunities can be vital to the competitive position of a company.

Time and resources are lost when managers cannot find information to support their decisions. Time and resources are lost when people come to meetings with different numbers and must defend different data. Several customers who have deployed Cognos Performance Applications say eliminating these time-wasting issues is the software’s overarching value. Coordinating data and direction creates the information environment that connects decision-makers to the business.

“Our objective was to ensure that our business questions could be answered by providing consistency and flexibility across the organization. In this global environment, the solution must be packaged to simplify and speed the implementation and roll out. Cognos Performance Applications more than meet the challenge by giving us the ability to find added value in our business and to identify opportunities for creating new value.”

Jeff Arnaud,
Assistant Chief Information Officer,
Lafarge Group.

Cognos Performance Applications are an out-of-the-box source of business intelligence (BI). They marry BI technology with business knowledge. Cognos Performance Applications provide managers with a wide range of pre-built reports and metrics that answer the key business questions at the heart of efficient operations. Implementing a Cognos Performance Application is akin to benefiting from the talents of a team of business consultants and data warehousing specialists.

Because they are fast to deploy, Cognos Performance Applications are quick to deliver results. Many customers realize a return on their investment with their first reports. Cognos Performance Applications let decision-makers see deeper into their organizations than previously. With this enhanced view of their operations, they uncover avoidable sources of lost money: unrealized profits, unnecessary expenditures, and ineffective processes.

Cognos Performance Applications are one of the fastest ways to identify and plug the leaks draining money and other resources out of a business. Further, they are the fastest route to the coordinated decision-making organization.

SOME OF THE QUESTIONS YOU CAN ANSWER WITH COGNOS PERFORMANCE APPLICATIONS

- How do customers compare in their contribution to the profits generated by a product?
- How has the average sales order size across products and product groups changed since the previous period?
- Are unit costs going up or down over time and are we consistently getting the best price possible from our vendors?
- Are the largest receivables accounts typically delinquent customers?
- Which customers have contributed the most to the year to date total change in bad debt?
- What has been the trend over time for the percent return on equity (by business unit)?
- Across business units, what are the totals for current-year-to-date cost of goods sold?
- Are sales discounts increasing or decreasing for deals above \$50,000 in North America over the last 6 quarters (versus Europe)?
- Are changes in average value of inventory, inventory turns, and average days of coverage for the last four periods indicating one product line is close to stocking out?
- Is production yield and throughput improving by shift over last year?

PLUGGING THE LEAKS

“Within days they were downloading data to their electronic organizers and manipulating it to get a better sense of their customers’ needs and buying patterns.”

COBE Cardiovascular
Cognos Performance Applications customer

Cognos offers Performance Applications for three main business areas: Supply Chain Analytics, Financial Analytics, and Customer Analytics. These integrate for a complete picture across the company. For easy and modular deployment, the three areas are broken into six self-contained components, each with a bank of comprehensive reports, KPIs, and business metrics:

- Sales
- General Ledger
- Accounts Receivable
- Accounts Payable
- Inventory
- Procurement, and
- Production.

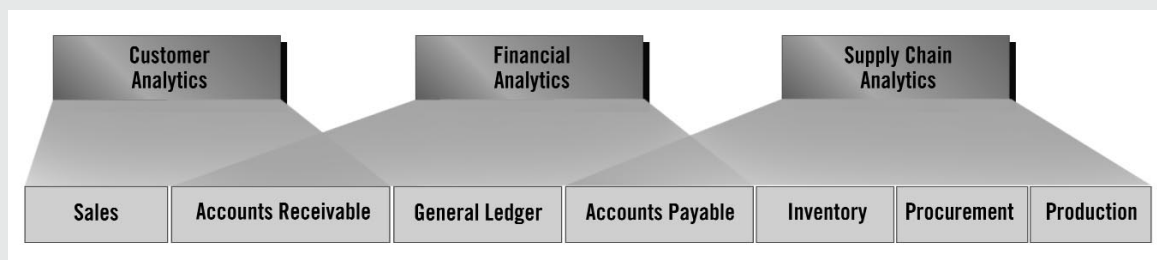
Answering business questions found in these applications offers an immediate value: identifying “leaks” in business operations and processes that cost the company money.

In Accounts Payable Analysis, for example, you can find out your total spend for critical material. Are you leveraging the volumes you are buying to gain best prices?

In general, avoidable areas of lost resources include:

- Unrealized revenues/profits
- Unnecessary expenditures
- Ineffective processes.

There are some “usual suspects”: DSO trending up, excessive inventories, and paying higher prices than necessary. But what are the other sources of lost revenue and profit affecting companies? Where do you begin to look?



PERFORMANCE
APPLICATIONS

The answers to hundreds of business questions are found in each Cognos Performance Application. Cognos developed the business content of its Performance Applications through best-practices research and interviews with decision-makers, industry experts, and business leaders worldwide. For many customers, a Cognos Performance Application is like a team of seasoned managers combing through their business, identifying and driving action to plug the leaks draining resources from their organization.

IMPROVING SALES EFFICIENCY: COBE

Colorado-based COBE Cardiovascular delivers innovative and therapeutic solutions in the treatment of cardiovascular disease. Founded in 1964, COBE Cardiovascular is a member of the international SNIA Medical Technologies Group. In its most recent fiscal year, SNIA reported annual revenues of over 950 million euros.

“Our sales force had fairly limited information about customer trends and our marketing team didn’t have a clear sense of how our product lines were doing,” says Marsha Williams, Vice President of Information Technology for COBE Cardiovascular Inc.

With Cognos and SSA Sales Analysis, users can now input their own queries and instantly view the results online and in real-time and manipulate data with their specific needs in mind.

Salespeople can access specific customer information such as activity at a particular hospital over a certain period of time. The marketing team can study trends in product lines, and the finance department can easily extract trends in sales, gross margins, revenue, and other relevant statistics. Users can drill down by customer, product margin, trends in revenue by product line, for up-to-date results in minutes—rather than days or weeks.

“The first time our salespeople saw a customized report that was generated on the spot, they were speechless,” says Williams. “Within days they were downloading data to their electronic organizers and manipulating it to get a better sense of their customers’ needs and buying patterns.”

COBE hopes to incorporate additional Cognos Performance Applications modules in the near future, including General Ledger and Inventory.

“We focused on the sales analysis piece first because it was the core of our business,” says Williams. “But Cognos’ scalability allows us to protect our IT investment for the future since other important modules can be built on the same foundation.”

DO YOU KNOW WHAT INFORMATION YOU'RE MISSING?

"You don't know what you don't know."

Project Manager, 2001 Mars Odyssey
Jet Propulsion Library, NASA/Caltech

Isolating leaks in your business requires asking the right questions that expose the true efficiency and effectiveness of your processes and operations. All of the questions, metrics, and reports that follow are built in to one or more Cognos Performance Application.

UNREALIZED REVENUE AND PROFIT

Successful companies understand what has an impact on revenue and profit across the business. With a keen sense of what drives profits, some companies using Cognos Performance Applications have actually changed their business model from one based on revenue to one based on customer and product profitability. Typically, companies look at metrics around customer revenue, customer growth, and profit. They ask such questions as:

- Who are my biggest customers?
- What products are the most profitable?
- What customers are buying more (and less) from me, year over year?
- How are the discount practices of my sales organization having an impact on revenues and profits?

Gain a competitive advantage and uncover sources of unrealized revenue. Some metrics to examine more closely include trends in sales discounting, returns, profit margin, and bad debt as a percentage of revenues.

Delve deeper into your business by asking such questions as:

- Is the number of orders with a high margin percentage increasing or decreasing?
- Are your highest revenue-generating customers profitable?
- How much margin am I losing with returns?
- Is the average margin percentage per deal shrinking or increasing?
- Can I bundle products differently to drive a higher margin offering?

All Organizations	Prior YTD	YTD	YTD Change	YTD Growth
Pool & Spa Group				
Discount Available Amount	\$44,078	\$4,858	(\$39,420)	-89.4%
Discount Taken Amount	\$5,710	\$1,276	(\$4,425)	-77.7%
Discount Refused Transaction Count	10	1	-9	-90.0%
Discount Taken Transaction Count	1,454	322	-1,132	-77.9%
Surfice Water Group				
Discount Available Amount	\$84,435	\$26,317	(\$58,118)	-68.8%
Discount Taken Amount	\$6,136	\$0	(\$6,125)	-100.0%
Discount Refused Transaction Count	17	0	-17	-100.0%
Discount Taken Transaction Count	331	167	-224	-67.7%
All Customers				
Discount Available Amount	\$128,513	\$30,975	(\$97,538)	-75.9%
Discount Taken Amount	\$11,845	\$1,276	(\$10,570)	-89.2%
Discount Refused Transaction Count	27	1	-26	-96.3%
Discount Taken Transaction Count	1,785	429	-1,356	-76.0%

UNNECESSARY EXPENDITURES

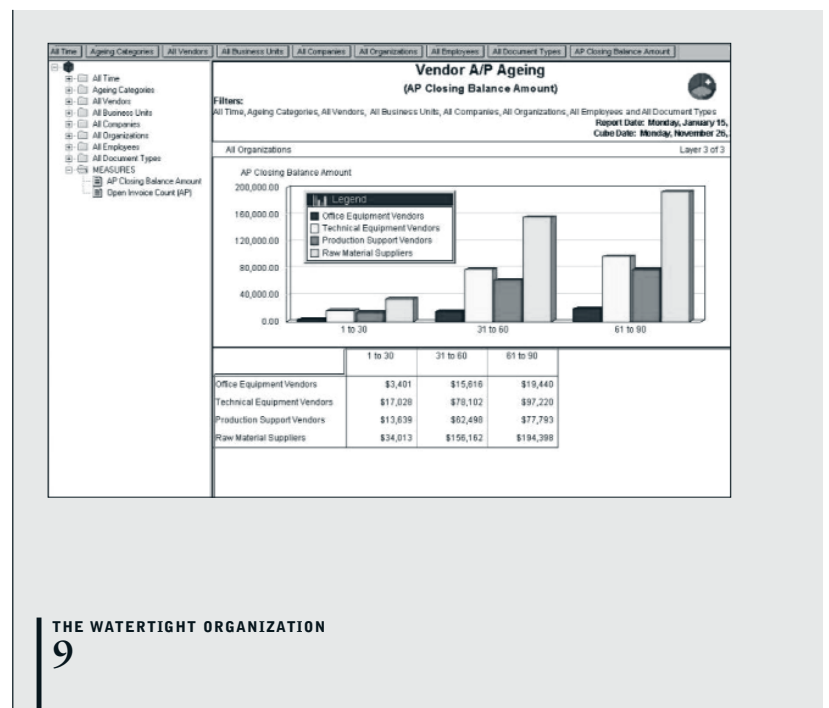
Don't accept that an expenditure is simply the cost of doing business; test it to see if it can be made more efficient. With BI, Cognos customers have saved hundreds of thousands of dollars on everything from overstock of Styrofoam cups to unused supplier discounts.

Find out where you might be paying more for operations and processes than necessary. Companies typically look at metrics around inventory overstock and inventory turns. They ask such questions as:

- Am I turning inventory often enough?
- Am I reducing my working capital or even borrowing to cover costs?
- Am I writing off more bad debt than before as a percentage of revenues?

Hidden and significant sources of unnecessary expenditures can be found by looking at discounts on payables, bad debt, and inventory analysis. For example:

- Are we spreading our buying power over too many suppliers for the same materials?
- What is the value of discount lost when we don't pay early?
- What is the value of late payment charges?
- Which "material type" in inventory are we tracking the least accurately this year versus last?



INEFFECTIVE PROCESSES

Despite departmental silos, many processes span an organization. These processes are often targets for improvement. Tracking metrics around DSO, aging of receivables, on-time shipments, and budget variances can help. For example:

- Are we shipping on time to our customers?
- Am I getting better or worse at collecting receivables?
- Am I leveraging my resources efficiently?

Companies armed with better BI find cracks in the processes that lead to unnecessary cash losses. They look at metrics such as order-to-ship cycle time, order fulfillment accuracy, number of adjustments by clerks, and bad debt.

They ask questions such as:

- What is the year-to-date bad debt amount, compared across sales organizations, business units, or product lines?
- Which resources (for orders, invoices, and receivables) have the highest instances of adjustments?
- Are accounts and transaction volumes spread evenly across resources?
- How have freight charges across products and shipping points changed since the previous period?
- Where are the bottlenecks in my PO cycle?
- Which manufacturing shifts have the highest (or lowest) throughput, and which are getting better (or worse)?

Collections Analysis (MEASURES)

Filters: 1999, All Customers, All Companies, All Organizations and All Employees

Report Date: Wednesday, January 10, 2000
Cube Date: Thursday, January 10, 2000

All Companies	1999 Q 1	1999 Q 2	1999 Q 3	1999 Q 4
Canada				
Days of Sales Outstanding (DSO) Ratio	12.60	8.46	12.15	7.10
Average Collection Period	139	79	214	72
Invoice To Payment Activity Ratio	2.08	1.13	0.58	0.84
U.S.				
Days of Sales Outstanding (DSO) Ratio	1.00	16.90	13.23	1.61
Average Collection Period	35	154	101	34
Invoice To Payment Activity Ratio	1.78	0.73	0.79	1.98
Europe				
Days of Sales Outstanding (DSO) Ratio	1.45	19.08	13.16	1.60
Average Collection Period	38	152	104	24
Invoice To Payment Activity Ratio	1.78	0.73	0.78	1.93

MAKING BUSINESS WATERTIGHT

“Many ‘analytic applications’ are merely buckets of reports. In contrast, Cognos Performance Applications, which include numerous valuable reports, are based on substantial business and technical content. Although one benefit of having this domain and technical expertise right in the box is fast implementation time, the greater merit is the role Cognos Performance Applications can play in paving the way for truly coordinated organizations.”

Bob Moran,

Research vice president and managing director,
Decision Support Research at the Aberdeen Group.

Organizations use Cognos Performance Applications to create an environment that prevents revenue and expense “holes” from developing. Cognos Performance Applications answer hundreds of business questions in supplier, financial, and customer domains using pre-built reports and KPIs.

Decision-makers can see at a glance what aspects of the business are trending negatively and view the changes over time. Using this delta management, Cognos can help translate company strategy into measurable performance.

With an integrated approach to supply chain, financial, and customer processes, a company can leak-proof whole areas of its business.

SUPPLY-CHAIN ANALYTICS

Increase your understanding of suppliers, procurement, inventory, and production. With Supply-Chain Analytics, decision-makers gain a single view across the company for supplier relationship management, materials handling, inventory management, demand and fulfillment, and production.

Supply-Chain Analytics in action

Part of your corporate strategic plan is to reduce costs without affecting customer satisfaction. The first places for action are reducing overstocked items, and consolidating purchasing power with suppliers to gain better terms and lower cost of goods.

Reducing overstocked items—Through Cognos Performance Applications, a quick examination of inventory can answer these questions:

- Which products have the highest overstock amount and quantity based on demand and stock levels?
- What materials are in least demand (lowest usage value)?
 - How many days coverage for these materials?
 - How much overstock for these materials?
 - Which products have the highest percentage of total overstock value?
- What are the materials for which there is zero demand contribution?
 - Which of these have the highest quantity and value?

In this scenario, one company's analysis identified five products with no usage, and overstock on more than 100 products. Addressing just these issues and watching for similar situations daily can affect millions of dollars of carrying costs.

A telecom customer of Cognos said that it would save over \$2 million annually in carrying costs by seeing this information and acting on it daily.

Procurement and managing suppliers—Expenditures can reach up to 65 percent of revenues; it is a logical place to look for efficiencies. Procurement costs can be reduced by dealing with fewer vendors on better terms.

You will get the highest impact on products/materials with the highest usage demand and highest usage value. Answer such questions as:

- What is the rank of each material according to their relative stock usage value year-to-date?
- For which materials is the demand increasing/decreasing?

For the highest movers, we can identify which ones have multiple vendors supplying the company:

- Which materials are considered candidates for vendor consolidation?
- For these candidates, detail the spend, quantity, vendor, and business unit count.

Compare the vendors for the top materials and identify the ones who are more strategic to the company:

- List all vendors ranked by spend, showing the number of purchase orders, materials they supply, and the buyer count.
- Which vendors are candidates for deletion?

The company now has information to consolidate its spending with the most strategic suppliers. It will focus on the materials with the highest value, spend, and volume. It can leverage the increased spend with select vendors to make volume commitments. The company can renegotiate its agreement with the vendor to strengthen its buying position and relationship, and reduce overall cost of materials and process steps.

FINANCIAL ANALYTICS

Gain actionable information about your key financial metrics. Analyze general ledger, accounts receivable, and accounts payable to see how each part of the corporation is contributing to overall revenue, expense, profit, and cash flow.

Financial Analytics in action

The financial team has been asked to improve cash inflow, but accounts receivable figures show a trend of increasing bad debt. Cognos Financial Analytics helps you determine why this is happening.

- What regions, products, and customers are top sources of bad debt?
- What regions, products, and customers are trending upwards for DSO?

Viewing bad debt by region and customer group reveals that it is tied to new customers in the northwest region. Within this group, the average days to collect is increasing, the aging schedule is showing more outstanding value longer, and the number of adjustments is increasing.

- What is the margin for customers, by region?

You look up terms to see if these customers were offered an unusual payment arrangement. In fact, you discover generous payment terms, likely the result of a sales campaign in this region to aggressively win new business. The result is a lower quality of customer and reduced cash inflow reliability, confirmed through cash inflow metrics. You red flag other customers trending in the same direction as the trouble group.

Cognos Performance Applications revealed the source of the bad debt. Now you can notify credit management of this problem so they will monitor accounts more closely, adjust terms to ensure prompt payment, and screen new customers more closely.

CUSTOMER ANALYTICS

Customer relationship decision-makers gain a single view across the company to understand sales performance, customer behavior, and product sales. Gain insight into your customers' behavior, purchase patterns, and satisfaction level to retain existing customers and attract the right new ones.

Customer Analytics in action

Senior management has been asked to measure the business by profit margins rather than its standard revenue metrics. Cognos Customer Analytics can do this.

- What is sales performance by region? By product?

Looking at sales performance by region reveals that Asia-Pacific is outperforming other regions with a YTD revenue growth of almost 24 percent. This is driven by the Sydney and Hong Kong offices. Of the two main product groups, "professional systems" were the primary drivers of increased sales. Three products in this group represented 45 percent of sales. Over all regions, the same product group is growing significantly more than others, though the growth in those three products is higher overseas than in North America and Europe.

- What is the profit margin by product? By region?

Viewing margin by product reveals that Asia-Pacific is having success with products that generate much lower margins than other products. Despite the spike in overseas revenue, North America has higher margins because its product mix includes higher margin products.

- What is profit margin by customer group? By individual customers?

Isolating the lower margin deals, you then take a closer look at the customers. The margins for these customers overall is decreasing due to increasing levels of discounting. These customers also happen to be some of our “Platinum” customers, so the loss in margin could be volume-based.

- What discounts offered are being taken, by customer?
- What A/R discounts are being taken, by customer?

We find that many of these platinum customers are also taking the discounts offered by finance for paying their invoices early. The result is discounts on top of discounts.

Cognos Performance Applications have shown that despite high sales in one region, high margins did not result. Changing a region’s product mix and sales compensation packages to reward for higher margins may duplicate other regions’ sales margin performance. The company can also adjust its receivables terms to offset the double-dipping discounts for customers.

Pre-built reports that answer a variety of business questions and track key indicators in each domain let you stop potential losses before they occur. Comprehensive reporting in each domain lets you see opportunities earlier and take advantage of them.



THE LEADER IN BUSINESS INTELLIGENCE

Cognos is the world leader in business intelligence (BI) software. More than 80 per cent of the Fortune 1000 are customers. Cognos has more market share, customers, users, and BI revenue than any other independent BI software vendor. BI lets organizations draw actionable information from the wealth of data locked up in enterprise resource planning (ERP) systems and other operational data. Based on this technology strength, Cognos developed Performance Applications using business questions and reports from business leaders worldwide.

With Cognos Performance Applications integrated among supply chain, financial, and customer domains, businesses can establish a watertight performance management environment. With cross-domain analytics, companies don't surrender gains from one area—supplier cost efficiencies for instance—with losses from another area—such as boom and bust inventory requests due to a sketchy understanding of customers and the market.

Analytics integrated across supply chain, financial, and customer domains means report users share a common business language and understanding of the strategy. “Customer,” “product,” and “region” are defined consistently for every report, making communication among different departments easier.

Integrated analytics support the coordinated organization. They clearly communicate strategy. They provide access to the information that lets people do their jobs better. When they have confidence in business data, managers can go beyond plugging leaks. They can proactively manage, and then adapt their organization so it can grow and lead.

PERFORMANCE APPLICATIONS: ADVANTAGES

1. *Built-in business value*

Cognos based its Performance Applications on critical business questions and only then determined what source data was required. The business content was collected and validated through extensive interviews with consultants, professionals, and business veterans from Cognos' Fortune 1000 clients. Cognos Performance Applications come with hundreds of pre-built reports and KPIs.

2. *Extensible for competitive advantage*

Cognos Performance Applications are composed of modules for supplier, financial, and customer analytics. Customers can implement one module and expand from this point across the business. They can also customize their report selections, access alternate sources of data, and add new areas for analysis or unique metrics for a particular industry.

3. *Production-ready architecture*

Modules for supplier, financial, and customer analytics can be deployed individually or combined easily. All are up and running quickly, and maintained with a minimum resource commitment from IT. They are built on the basis of best technical practices to ensure reliability and reduce risk.

4. *Accelerated time-to-result*

Cognos Performance Applications deliver results quickly through pre-constructed data extractions, best-fit data models, and a superior business intelligence layer with packaged reports and analyses.

ABOUT COGNOS

Founded in 1969, Cognos today serves more than 22,000 customers in over 135 countries. Cognos enterprise business intelligence solutions and services are also available from more than 3,000 worldwide partners and resellers.

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