



## **When the going gets tough, the tough need insight**

Performance management in a  
weak economy

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## Abstract

There are no times like tough times to make the case for performance management software. This white paper reviews the many hurdles faced by organizations in a down economy and explains how performance management solutions – such as those from IBM – can provide the kind of deep information and insight that decision-makers need to lead their companies through critical challenges.

## Overview

Organizations in business for any length of time have likely navigated good – and bad – economic conditions. Interestingly, management challenges exist in both environments. Yet, most decision-makers would agree that it takes much greater organizational maturity to weather a negative economic climate.

Think of it this way: In a strong economy, companies face considerably less risk from sub-par decisions, under-performing assets, talent gaps, inefficient resource utilization, cumbersome supply chain processes, and fat back-office operations. In a tightening economy, however, organizations with bloated operating structures tend to be punished – by shareholders, suppliers, and, especially, lean competitors.

Without question, weathering a downturn depends, in part, on visionary leadership. But choosing the right strategy is easier when your decision-makers have access to robust insight that paints a complete and accurate picture of corporate performance.

To gain this insight, decision-makers must be able to monitor all key financial indicators in real time. So it's essential to understand how IBM Cognos® performance management software and solutions can help you adopt the response strategies that can shield your company from an economic storm.

## Business problems

### **In the eye of the storm**

Reduced credit availability. Falling demand. Earnings pressure. Currency volatility. There's no doubt that today's economic conditions have sparked a range of challenges for companies, including compromised cash flows, difficulty managing inventories to meet fluctuating demand, and declining sales, revenues, and profits.

For many organizations, these negative indicators act as a cue to go into bunker mode. Plagued by a form of corporate tunnel vision, they are often tempted to keep doing what worked in the past, in the hope that it will continue to work in the future.

Both experience and history show that giving in to this temptation can be a fatal mistake. Consider: In a recent report<sup>1</sup>, McKinsey & Company looked back to the recession of 2000-01 to identify which companies faltered and which took advantage of sluggish times to make gains on their competitors. They concluded that "nearly 40 percent of leading US industrial companies toppled from the first quartile in their sectors during the 2000-01 recession, and a third of leading US banks met the same fate."

## Business drivers

### **The need for performance management software**

To avoid becoming this kind of statistic, your company needs access to critical data about how well your business, your market, your competitors, and your suppliers are responding to today's challenging times.

For that, you need performance management software.

John Hagerty, VP and research fellow at AMR Research, agrees: "A company that has insight into its operations and its customers has an advantage over companies that don't," he says. "That's especially true during times when other indicators might suggest pulling back on technology investment."<sup>2</sup>

## The solution

### **Finding opportunity amid turmoil**

In weak economic conditions, your company's decision-makers need the ability to understand how the company is performing against its targets. They simply do not have the time to sift through stacks of reports to find out what's right – or wrong. By linking individual and team performance to organizational strategies, scorecards help users understand how their roles drive company-wide performance. Similarly, dashboards use gauges, charts, maps, and other graphical elements to translate complex information into a dynamic view of business conditions.

Used in tandem, IBM Cognos 8 Go! Dashboard and scorecards help business users take faster action in response to concise information they receive at a glance. An interactive and intuitive interface masks back-end complexities to enable business users across the organization to create self-service reports that contain the information they most need. That eliminates the need for report writers to aggregate information from multiple data sources and write individual reports. Instead, users across the organization can customize their own dashboards to track performance over time.

As an added advantage, IBM Cognos software solutions automatically reformat reports for a wide variety of environments, including the Web, mobile devices, and common office applications such as Microsoft® Excel®. This allows your users to interact with their reports no matter where they're located, ensuring they always have access to the information they need to respond dynamically to both threats and opportunities.

This capability can translate into a crucial differentiator during times of economic stress. Consider the case of Envision Credit Union, a Tallahassee-based credit union with over \$200 million in assets and more than 30,000 members. After investing in IBM Cognos software in early 2007, Envision noticed that demand for automobile loans was declining. This allowed the organization to focus on other investments, such as mortgage lending and credit card portfolios.

At the same time, however, Envision decided against issuing any sub-prime loans – a decision that has allowed the organization to remain on stable financial ground at a time when many of its peers are struggling. Dan McGowan, senior VP and CFO of Envision, credits much of this foresight to the organization's investment in business intelligence (BI). “It's better not to wait until you're faced with a crisis before doing something progressive,” he says. “A well-rounded BI program should provide enough good information to offer actionable insight, whether the trend is up, down, or flat.”<sup>3</sup>

### **Measuring efficiencies**

Another way companies frequently respond to economic challenges is by shoring up internal operations to ensure the entire organization is running at peak efficiency. Making this determination, however, requires an in-depth understanding of how well the company is operating relative to its historical trends, its peers, and the overall market. To gain this insight, your company's decision-makers need the ability to connect operational details to business drivers.

IBM Cognos performance management systems support this analysis by empowering users to track material exceptions triggered by real-time events and trends. Rather than measuring performance in absolutes, your business users can use critical business ratios to gain a comprehensive overview of organizational efficiency. For instance, instead of using single point measures, such as sales per month, current accounts payable, or revenues per channel, users can track performance relative to market growth, strategic objectives, or peer groups. This type of tracking allows your organization to get answers to complex strategic questions, such as:

- What is our revenue growth relative to market growth?
- Which types of customers are more likely to pay late – and why?
- What is our relative production per square foot in each of our factories?
- Which of our channels is most likely to outperform?

Armed with this information, business leaders gain the context they need for key decisions. With insight into the state of the market, and your company's place within it, they can reallocate projects and resources, identify poorly-performing assets, measure the profitability of key accounts, rebalance the company's product mix, reprioritize expenditures, improve customer payment processes, and ensure staff remains focused on value-added activities such as customer service.

At the same time, personal alerts allow users to receive updated versions of scheduled reports via e-mail or be notified whenever a specific watch rule they set is met. In volatile economic conditions, this functionality allows decision-makers to respond proactively to warning signals before they have the opportunity to spiral out of control.

#### **Making the tough calls**

As budgets decline and discretionary spending tightens in response to economic challenges, your users must increasingly make difficult decisions regarding resource allocation and initiative prioritization. IBM Cognos performance management and BI software streamlines this decision-making process by enabling users to evaluate financial results across countries, currencies, and legal entities. With detailed analytic capabilities, business leaders can assess how results change over time, in different regions, and across various product categories. By drilling down to transaction-level detail, or comparing performance for any time period they choose, they can spot trends that allow them to better understand resource requirements and plan accordingly.

In practical terms, this level of insight lets users make tough calls regarding which assets, resources, initiatives, locations, products, or customer relationships may no longer be sustainable. On the flip side, it also allows decision-makers to target marketing efforts to promising customers, deliver advanced training to high-performing employees, roll out new products in key regions, and measurably improve productivity by streamlining workflow and eliminating process inefficiencies.

Given the dangers of a strategic misstep, users rarely make these types of decisions independently. To accommodate this need for enterprise-wide collaboration, IBM Cognos 8 BI features an annotation tool that lets users capture comments and make “notes in the margin” of their reports. IBM Cognos 8 Go! Search lets them find the precise information they’re looking for amid a mass of structured and unstructured data, improving their analytical capabilities. With common data definitions, users can even enter data in their own business language instead of using unfamiliar terms, allowing them to spend less time debating the numbers and more time deciding what to do.

#### **Streamlining the supply chain**

A key way for organizations to consolidate their spending and increase their buying power in a downturned economy is by streamlining their supply chain management. By carefully reviewing your supply base, your global sourcing strategy, and your procurement processes, your decision-makers can gain the insight they need to negotiate with suppliers to receive more favorable terms, costs, discounts, service levels, lead times, and quality.

While effective supply chain management is critical in all market conditions, in a slow economy it can spell the difference between long-term success and failure. Fortunately, IBM Cognos performance management solutions can help you

- Identify key metrics and receive alerts when supplier performance is off-track so you can make immediate corrections.
- Take pre-emptive action to prevent inventory slowdowns or over-production in response to shifting consumer demand.
- Gain insight into cause-and-effect relationships to understand the impact of decisions up and down the line.
- Share best practices across your global supply chain with multilingual and multi-currency support.

- Reassess and optimize product mix for specific regions.
- Monitor supply chain performance in terms of efficiency, utilization, quality, cost, and throughput.
- Identify variances in material usage, downtime, labor, and overhead by shift, operation, and supplier.
- Create and monitor key performance indicators, such as shipment performance, supply chain cycle time, inventory, quality, cost-to-serve, and supplier responsiveness.

By carefully managing your supply chain in turbulent economic times, your organization can do more than reduce the potential for unforeseen shifts in demand, supply disruptions, price swings, and quality problems. You can also identify areas where cash may be unnecessarily tied up in working capital, freeing up your resources to take advantage of opportunities to acquire assets at reduced prices.

#### **Laying the foundation for future growth**

Despite the tendency to retrench in times of economic turmoil, companies cannot afford to stand still and wait for the storm clouds to pass them by. At the same time you are taking steps to cut costs, improve efficiencies, reallocate your resources, and streamline your supply chain, your organization must also lay the foundation for future growth.

This requires a commitment to swap out inefficient processes in favor of new systems capable of driving ongoing performance. For instance, rather than setting targets at specific numbers, your decision-makers may want to begin tying performance targets to events, trends, and risk factors. Rather than engaging in planning on an annual basis, they might consider adopting shorter planning cycles focused on the achievement of specific tactics and initiatives. Organizations with particularly high risk profiles should start preparing monthly forecasts. And regardless of the sector you're in, it is becoming increasingly important to align financial forecasting with the business cycles that prevail in your key markets.



By replacing rigid annual budgeting with continuous planning – on a monthly, weekly, or even daily basis – IBM Cognos performance management software can position your organization to achieve higher performance in both good times and bad. With real-time visibility into up-to-date data, your decision-makers can create rolling forecasts that take a broad range of potential future scenarios into account. Using predictive analysis, business leaders can develop action plans for variable future outcomes, increasing business agility and responsiveness. For instance, by understanding how your customers are most likely to respond to specific incentives, your organization can increase the probability for a successful product launch or marketing initiative. This type of insight can provide you with a differentiator that could potentially springboard your organization beyond those competitors who are less prepared to address economic uncertainty.

## Conclusion

In tough times, corporate decision-makers must detect trends, changes and exceptions – and respond accordingly. They must track organizational performance across departments and geographies. They need to understand how well individual efforts align with corporate strategies. And they need this information delivered to them no matter where they're located, no matter what device they're using, and regardless of what language they speak.

IBM Cognos performance management and BI software deliver precisely this insight. By empowering your business users to transform raw data into business intelligence, these solutions allow them to make the crucial decisions that can shield your company against the current downturn. By accruing directly to the bottom line, the results of these decisions can give your company the impetus it needs to successfully navigate challenging economic times. They can also deliver a strong business case to support your investment in performance management applications.



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#### Endnotes

- 1 Richard Dobbs, Tomas Karakolev, Rishi Raj, McKinsey on Finance: Perspectives on Corporate Finance and Strategy, Number 23, Spring 2007, McKinsey & Company.
- 2 Judith Lamont, BI, in good times and bad, August 31, 2008, KMWorld, <http://www.kmworld.com/Articles/Editorial/Feature/BI,-ingood-times-and-bad-50457.aspx> (accessed September 25, 2008).
- 3 Judith Lamont, BI, in good times and bad, August 31, 2008, KMWorld, <http://www.kmworld.com/Articles/Editorial/Feature/BI,-ingood-times-and-bad-50457.aspx> (accessed September 25, 2008).

## 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.

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