BI Radio
Episode 02
Performance Management

(00:00)

Montage:
- "We were at that stage of Excel nightmare."
- "Very cumbersome and very frustrating."
- "Business as usual is no longer acceptable."
- "We're trying to do a better job."
- "We can't blame the systems and the technology."
- "We really need to focus on simplifying our processes."
- "They're actually meant to be a tool the customer can take and tweak."
- "We've had too many excuses for not making good decisions."
- "And how can we do that…?"
- "The only excuse for a bad decision is s stupid manager."

Ken Seeley: Hi there, and welcome to BI Radio. I'm Ken Seeley. On the show today, Performance Management: in theory, in practice, and in place of business as usual. Contributing producer, Delaney Turner, explores the origins of Cognos Performance Blueprints. We hear how speed and simplicity help Best Buy stay on top in consumer electronics. And to start things off, building a more flexible Finance department, David Axson talks to our own John Blackmore about the shortfalls of traditional budgets and forecasting, the value of benchmarking, and the technologies that CFOs are turning to.

(1:20)

John Blackmore: David Axson is the founder and President of the Sonax Group and an advisor to the Cognos Innovation Center. Previously, David was the head of Corporate Planning at Bank of America and a co-founder of the Hackett Group. Today, David is discussing his new book: Best Practices in Planning and Performance Management published by John Wiley & Sons in 2007. Best Practices in Planning and Performance Management is an update of a book that you had also written in 2003. How has the landscape and your thinking of performance management evolved? This need for greater flexibility, is that one of the key pieces?

David Axson: I think it's key. If you look at the commercial world over the last three to five years the hallmark has really been volatility and uncertainty. And what it's really done it's really put the spotlight on the traditional planning, budgeting and forecasting processes and many managers are coming to the conclusion that they're obsolete. So the major change now is a ready acceptance in CEO's, CFOs and other business executives that business as usual is no longer acceptable. They're having to create more flexible and more adaptive, risk aware performance management practices that

can accommodate the reality of the current environment. A couple of other things have changed, which I think are really germane today. One is the availability of benchmark information, allows companies to be much more prescriptive in what their processes should look like. We're moving along a maturity curve here and the incidence and the availability of benchmark information is much broader today. You no longer need to spend a lot of time studying what the end result should look like; you can spend more time focusing on how to get there. And perhaps finally the most important change is for the first time in my career of 25 years in this industry we're now seeing systems and technologies that can actually deliver the things that we've been asking for for a long time in terms of real time information, rich analytical tool sets, selectivity, distribution, and the ability to share and collaborate on information as you go through a planning and decision making process. So that gap between what was promised and what can actually be delivered is now largely being closed. So we don't have technology as an excuse and more. It's our fault if we don't leverage it fully.

John Blackmore: Early on in your new book you probably make a case for that when you ask readers fifteen questions that help them guage the health of their own performance management processes and systems. Maybe if you could outline two or three of those questions that you consider more important than others and ones that most of us tend to fail at.

David Axson: I think the most important one is plan what's relevant and what's important. Too many companies, when I look at their plans and budgets today, have line items of things like stationary, and rent, and office supplies. Where is the line item that says the amount we're going to invest in acquiring new customers? Or the amount we're going to invest in retaining talented people? These are things that CEO's talk about. These are things that are written about in strategic plans in an operational plan documents, but nowhere are they reflecting the budgets or forecasts of the organization. Now does it mean that rent is more important than acquiring and retaining customers? I think not. So the first step is to make sure we plan the things that matter, not the things that the accountants want us to look at at the end of the year. By all means we need to satisfy that fiduciary requirement, but a plan is a roadmap to help managers make better decisions faster; therefore the content needs to be relevant to the decisions that they're being asked to make. And I've never met a company that fired an employee because the floor space cost too much. So the rent is probably not the most important thing to me thinking about. The second major thing, and we really must do this as a matter of urgency, is to liberate our financial analysts. We gave them this tool called the spreadsheet 20 years ago, which was seen as being the best thing since sliced bread for the financial analysts. We can now sit and slice and dice data to our hearts content. What's happened is we've become slaves to our cubes. The elements of dialogue, discovery and debate, that are so essential to the developing rich insight have been lost. We really need to get our analysts out of our cubes by providing with the information access and the analytical tools that allows them to deliver rich insight. Technology's a big step to that change, but it's also behavioral. It's very different being a great analyst than being a great accountant. So there's some skill set changes that need occur if we're going to help our people be

successful. So the combination of planning the right things and then equipping our people with the tools and the behaviors and the skills to effectively use those tools and information successfully, that's really at the heart of successful performance management today.

John Blackmore: You're telling readers that we can't solve tomorrow's challenges with yesterday's business thinking. What are some of those outdated practices? You've touched on some of them we must abandon. And what is it about the new challenges that we're facing that forces that abandonment?

David Axson: Let me answer the second question first. What has really changed is when most of these management practices were created it was really in the zenith of manufacturing industry in North America. Alfred P. Sloan at General Motors, Henry Ford at Ford, and all the other industrial titans were really creating new industries. So the challenge that Alfred P. Sloan had at General Motors was making the right mix of Buicks, Chevrolets, Pontiacs, Oldsmobiles and Cadillacs to service the demand in the marketplace. There was massive pent-up demand for new vehicles. Not everyone had a car. Now GM and Ford are in the situation of trying to persuade a two-driver household they need four vehicles. It's a very, very different mindset. But we're also seeing much greater volatility and competitiveness in every marketplace. Just look at what the Japanese manufacturers have been able to do in terms of market share and product quality over the last 25 years in the North American market. That's requiring that things like static annual budgets, and five year financial plans, and rigid quarterly forecasts are pretty much obsolete the day they're created. And the absurdity is a company will sit down and create its budget for next year and will have the month of January and will cut and past the line items for January into December and expect the organization to be able to predict December's numbers as accurately as January. That's like trying to forecast the weather: We can get it right for about the next 6 minutes and thereafter our predictive ability declines dramatically. So we really need to size and structure our performance management processes to the reality of a very volatile world. The only surefire thing about your plan is it will be wrong. The key is to know when it's wrong quickly so you can take corrective action or, if it's an opportunity, capitalize upon that opportunity.

John Blackmore: You've recently been on the road with Cognos with the Innovation Center Roundtable Events and you had a great topic. You presented on the performance management secret – Isolate Management Stupidity. Can you tell me a little bit about this secret stupidity?

David Axson: Part of it is a nice sound bite. That's really the objective. But what I'm really getting at here for far too long we've had too many excuses for not making good decisions. We don't have the data, or it's bad data. The information's not available. It's too late. It's not timely. The systems don't work properly. We didn't get the right people in the room. To me, the definition of world class performance management is, the only excuse for a bad decision is a stupid manager. We can't blame the process. We can't blame the information. We can't blame the systems and the technology. We

can't blame the analytical tools that we brought to bear. And it may be a utopian vision, but I think it's one that bears thinking about in terms of striving for excellence. We want to eliminate all those excuses.

John Blackmore: You've been an advisor to the Cognos Innovation Center for a number of years now. Why have you chosen this particular forum for your work?

David Axson: Well there are a couple of things: One is, I think the Cognos vision and my vision fit together very well. And I think that Cognos has done a very, very good job of articulating how its technology plays in a business process and in a culture and operating environment that's focused on good decision making. The other thing that, frankly, was important was Cognos's willingness to bring in subject matter experts. Not just myself, but a number of other people through the Innovation Center who could actually share ideas and thinking from the real world that really helps Cognos' clients go beyond the simple technology implementation. But as soon as you move into the performance management space you really need to adapt the tools and technology to the culture and management style of the organization, and I think Cognos appreciates that.

John Blackmore: David Axon, thank you very much.

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(10:37)

Ken Seeley: Welcome back. Next up, Performance Management in Practice. We all know Best Buy's the best place to find the best gadgets. But few people know about its best practices in performance management. It's because of these that Best Buy remains the world's top consumer electronics retailer. Jean Nitchals is a Senior Financial Analyst at Best Buy and in a Web seminar on February thirteenth, she gave us some insight on the way its Finance team works. Our microphones were there to capture the highlights. Let's listen in.

Jean Nitchals: My topic today will be about enabling performance management at Best Buy. And specifically, I'm going to give you a clear example of how we've been able to do that within our organization for one of our teams. To give you a little background on Best Buy, we are number one consumer electronics retail in the world. I imagine that most of you have heard of our organization, so I don't need to tell you more about who

we are, but what I want to tell you is that what we need to do going forward. As an organization if we want to maintain our status and be able to really impact our customers we have to understand and allow for understanding from our employees of who the customer base is that we're reaching forward towards.

Jean Nitchals: So with that, our company has set out to do an initiative to enable performance management within Best Buy. By allowing us to do that we have a few core philosophies that we want to try to entail. We want to invite our employees to be able to contribute unique ideas and experiences in the service of the customers. What does that mean? It means as each individual employee in the retail environment, or within our corporate structure, has an idea or a concept, or they understand a customer or a customer philosophy, we want to be able to project that out into our environment. And how can we do that? In order to be able to do that or have that type of environment we really need to focus on simplifying our processes - allowing to have speed of information, speed of planning, and be able to take all that information develop insights and push that out to the employees who in essence are going to work with our customers and get feedback from our customers. From that feedback we need to be able to take that information, apply it to our overall strategy of the organization and create the circle or the wheel once again.

Jean Nitchals: Approximately five years ago we set out on this venture to do some planning from an SG&A perspective. And we used a combination of contributor and analyst models to really get that driver based planning methodology out into our organization. In order to be able to do that we have embarked upon utilizing Cognos Planning as a solution for our environment. The first year really was just kind of our inception we worked with some capital models, as well as some SG&A models. And from that first year we had a lot of learnings of what our finance customer base would look like and we started to develop a process. To do that, as I mentioned, we have a combination of analyst tools and contributor tools. Some of our contributor applications reach all the way out to our territory planning groups which are a higher level from our retail stores. And our retail stores actually have visibility to their plans as well and we are working towards understanding which metrics are really controllable by the stores that they can make actions on and then allowing them to do planning from there.

Jean Nitchals: From a business perspective the results that we're really looking to drive are condensed planning cycles. We want to make sure that we have store managers, or even the right corporate business operations people involved in the planning process. They own the experience with the customer. They own the advertising that we push out to the stores or to the environment to impact the consumers. So they understand their business from an operational standpoint. Finance is a team that we use to support and really build on as a business activist relationship with those business operations and with our retail environment. So we want to be able to provide them with the right tools to be able to bridge the gap between their business and the business of finance so that we can help them understand and identify their trends and their metrics. And we can translate their operational information into financial

information. In an essence, we're teaching them about finance, and learning about their business.

Jean Nitchals: The other side of our environment is still in an analyst world and we have various areas in our organization that are utilizing that tool. We have a model for some of our services organizations; so for our geek squad business units, and we also have something in our consumer hub area. Within our consumer hub area we have our media and our advertising teams, and we also have our call center teams.

Jean Nitchals: The environment that we were in before previously with the call center is that we would plan out different programs. And within our call centers we have two components: we have an internal call center and we have an external call center. Our external call center deals with all the phone calls from "I'm out on a dot com web site and I'm having an issue with making a sale", or "I have more questions about a product." So I'm going to call the eight hundred number, eight, eight, eight number on your Web site and I'm going to talk to a live agent, and they're going to either help me understand the product information, help me determine how I'd actually do a purchase online, or they're going to take a sale on that phone call. Or for example, with our geek squad business, you might want to call in and schedule a service to be performed in your home. You need to call a call center.

Jean Nitchals: So our call centers handle a large number of volume from a call perspective, but they also do it on a very different program level base. So there could be a dot com program. There could be a geek squad program, and really understanding what that is. So walking into this space we really identified a huge gap in how they planned verses finance having a bunch of Excel spreadsheets that we would take seeds from the actual business owners, key into these spreadsheets, and then on a month end basis have a three week close process, because it would take us at least one week to get the data into the Excel spreadsheets, another week to try to verify the process and all the information was correct, and then another week to actually build and produce some reports. So walking into this environment I immediately saw that we could have some simplification by utilizing a new tool, and that was the analyst tool.

Jean Nitchals: So after meeting with and working with my business partners in the call center team we identified what the common metrics were that they did their business at. So how do I look at a call center business? They're going to look at it from a perspective of volume: How many phone calls am I going to take? How long are those phone calls going to be? How long are agents going to be in a conversation with our customers? Is it two minutes? Is it three minutes? What does the average look like for a particular program? Do they want to be contacted by email? Are they going to be contacted on the phone? Do I need to call that customer back? Those are the drivers of a call center business. They don't understand it in terms of account line item 1, 2, 3, 4, 5. They understand it in terms of, I need to be able to handle this number of calls. I need to be able to staff at this level for my labor. And I need to know that I'm going to be on the phone for this amount of time so that I can understand what my phone expenses are going to be as well as my agent expenses.

Jean Nitchals: So working with that team we decided to build a model within the analyst tool that would take all the information, allow them to plan at the detail that they plan at, transition that into the account level P&L information, and during that process, we got to teach our business partners a little bit about the finance world so that when they're looking at a P&L they understand what costs are within their metrics that they drive or they deal with on a daily basis will hit or impact the P&L. To give you a view of kind of where we were in some steps, really, we were at that stage of Excel nightmare. And once we got our business team out of that we were actually able to transition even our internal call center into understanding the impact or the power of having a great planning tool. And in today's world, so our phase two process, we're actually working with our internal call center to develop a weekly forecasting labor model that will take that information from their labor metrics and feed directly into the financial metrics that we've already developed for them, which will roll up into our monthly and quarterly forecasts and push that out to our business or operations people and become, from a finance team, more of an activist.

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Advertisement: Hi. I'm David Axson, President of the Sonax Group and author of the book Best Practices in Planning and Performance Management. Over the next few months I will be speaking at a Cognos Finance Forum in a city near you. Please join me as I share how the traditional barriers to high performance are being swept away by a new class of Finance professional and technology enabled proved and practices. I hope to see you there.

(19:45)

Delaney Turner: Hello. My name is Delaney Turner and I am the editor of Cognos Performance Perspectives, which is the Cognos newsletter. I'm on the phone today with Danielle Coughlin who's calling in from Orlando. Danielle is the Solutions Manager for the Cognos Innovation Center. Thanks Danielle for agreeing to talk to us today.

Danielle Coughlin: Absolutely Delaney. Thank you.

Delaney Turner: I want to get right to the heart of it here with the first question. When people hear the word "blueprint" it has a very visual connotation. I'm thinking blue pieces of paper rolled up. It's got diagrams on it. People are usually building a house. Is this an accurate description for the Cognos Performance Blueprints?

Danielle Coughlin: I think, to some extent, it's a great description for the performance blueprints other than the blue paper rolled up under somebody's arm. But the blueprints are truly meant to be a guideline or a jump-start for creating an application for our customers. So we in the Innovation Center have taken a lot of experience from hundreds of implementations that we've done with our product, great ideas from

thought leaders in performance management, and taken all that information and built out applications or solutions within the Cognos product suite. So our customers have something to use as a guideline for building their own solutions in-house.

Delaney Turner: I'm just looking. There are quite a number of performance blueprints here. At least fifteen for what we call "functional blueprints." Everything from allocations, planning, capital projects planning, risk analysis. And then for specific industries like manufacturing, we have the sales and operations planning, clinical trials for pharmaceuticals. Why the heavy interest or the heavy investment in performance blueprints?

Danielle Coughlin: Well when the Innovation Center was created about four years ago we took a survey of about one hundred, or so, of our really active forward thinking customers and talked them about where they were using the Cognos solution in their organizations. And what we found is that once they sort of tackled that financial capability, taking care of things like the P&L and their expense planning and that sort of thing, they were reaching out into different areas of the organization and using our tool set to solve different planning needs in those areas. And we started seeing a lot of carry over from one organization to the next. Despite industry, we were seeing a lot of implementations in the areas of headcount planning or capital expenditure planning or sales forecasting. If we could give them a jump start we would have a lot more success in those projects because the customers would have a guideline to follow. We would also have a lot less risk. And so in doing that we created a series of functional blueprints focused on those areas where we were seeing a lot of commonality. And following that first series of functional blueprints creates some solutions for customers very specific to their industry.

Delaney Turner: I want to get into now how they actually work. I'm picturing a scenario in my mind - a customer, or someone comes to the Innovation Center and says, "I'm interested in using or deploying one of your blueprints." Walk us through the process if you could.

Danielle Coughlin: Sure. Number one, most of the time they're already customers of Cognos. Our blueprints are simply solutions built using the Cognos toolset. So it's not an additional product. It's not an additional charge or fee to our customers. These blueprints are free provided they already own the software. But once that's been established and the customer has their hands on a blueprint there are a few things that happen. What we see a lot is our customers taking the blueprints and using them as a guideline, as I mentioned in your first question, a true blueprint for how they're going to move forward. They might take the blueprint and kind of break it apart and understand how we put it together. And each one of these blueprints comes with a guide that we call an implementation guide that will walk them through step by step the pieces of the blueprint and how it's put together. The other thing a customer might do is contact the Innovation Center and suggest that they would like to take this blueprint and maybe tweak it to fit their organization more closely. And it brings up an important point that the blueprints we find are typically seventy five to eighty percent accurate, or a fit for a

particular customer. So they're not meant to be an out of the box solution in which a customer might just plug and play. But they're actually meant to be a tool that the customer can take and tweak. So in those situations when they contact the Innovation Center we typically provide some guidance at the project kick-off and then handoff to either a Cognos professional services team or an implementation partner who understands that blueprint and can help the customer then do that twenty percent tweak to make it fit their organization.

Delaney Turner: I was wondering if you could talk to us about maybe a customer who's using one currently and some of the benefits that they've seen in using one?

Danielle Coughlin: Sure. We actually have a manufacturing customer that saw our blueprint for capital expenditure planning, and upon seeing it felt that that blueprint was about ninety percent accurate to their organization. So they took that blueprint and made a handful of modifications to it. And they did this on their own. They didn't even engage with a professional services team from Cognos or a partner. But they took that and within about three weeks had the blueprint up and running in their organization with all of their specifics to their organization in a fully populated model up and running for all the people that were involved in their capital planning process. In doing that had a big win in their organization for a process that previously had been very cumbersome and very frustrating for the people involved.

Delaney Turner: I'm wondering if you could talk to us about the link between the performance blueprints and a performance management agenda?

Danielle Coughlin: What our customers have been telling us is that those blueprints are great, but now they need a more holistic picture for their organization so they can actually meet their performance management agenda. So although they've got a great forecast now in implementing the blueprints now they need to take the results of that forecast and start feeding their corporate metrics. So what we're doing this up coming year is actually taking a series of those functional blueprints, more closely integrating them, so that, as I mentioned earlier, things like the results of the headcount plan will feed an expense plan which will eventually feed a P&L incorporating all that information and giving our customers guidance on how they can do the same in their companies.

Delaney Turner: So there is a link between using the blueprints and then using the business intelligence component?

Danielle Coughlin: Absolutely because performance management isn't just about the planning and forecasting piece. It's about taking that information and comparing it to actuals, comparing it to competitors, comparing it to what our business might look like four or five years from now based on some long range metrics and that sort of thing. So we're trying to do a better job and give our customers more tools to create that holistic view of their organization.

Information Management

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Delaney Turner: So you actually download the model from somewhere on cognos.com presumably?

Danielle Coughlin: Absolutely. It's cognos.com backslash innovation center. And all the blueprints are there broken out by either function or by industry. And a customer simply clicks on that link and from there can download the blueprint model itself as well as the application guide that I had mentioned earlier. And each one of the blueprints also comes with more of a senior level business value guide that can be downloaded as well.

Delaney Turner: Okay Danielle. Thanks for agreeing to talk to us and I hope to see you soon.

Danielle Coughlin: Thanks Delaney. It was my pleasure.

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Ken Seeley: Well that brings us to the end of another addition of BI Radio. I would like to thank our guests: David Axson, Jean Nitchals and Danielle Coughlin. Thanks as well to contributing producers, Kelsey Howard, John Blackmore and Delaney Turner. And finally, I would like to thank our producer and recording engineer Derek Schraner for composing all the original music you hear on BI Radio and for making it sound so good. A reminder: Check us out at radio Cognos dot com where you can download any of our programs and find additional information about the stories you've heard on our show. If you have any questions or care to comment about BI Radio send us an email at radio@cognos.com. I'm Ken Seeley. Thanks for listening. See you again in six weeks.

(30:00)