

BI Radio

Episode 12: IT Grows Up

(00:00)

Station ID: This is BI Radio.

(00:10)

Montage:

- In the past we've had very very segmented organization.
- I am not the most popular person in the hallway if we have to - if we get physical guidance that is less than we hope to get.
- A lot of my IT departments today are like well behaved puppies and at their best.
- Pick somebody who knows what they are doing and a system that you would like.
- I have a hard job.

(00:35)

Ken Seeley: Hi there. And welcome to BI Radio. I'm Ken Seeley. For the show today we're putting out a rather controversial question; can IT grow up? Kelsey Howarth talks to author Ade McCormack about what IT needs to learn to take a seat at the executive table. We will hear about managing performance and standardizing reports in the restaurant industry and billion-dollar dashboards at the US Department of Defense. But first up, can IT grow up? Kelsey Howarth in conversation with author and consultant Ade McCormack.

(01:17)

Kelsey Howarth: Hi, I'm Kelsey Howarth. Did your IT department suffer from low self-esteem? Well, it shouldn't according to Ade McCormack. McCormack is founder of Auridian, a Company focused on helping organizations maximize the business return on their IT investment. He is the author of "The IT Value Stack" A boardroom guide to IT leadership and IT Demystified, the IT handbook for business professionals. He also has a column in the Financial Times advising business leaders on business IT issues. Here he and I discuss how IT can grow up and take a deserve seat at the executive table.

Joining me on the phone is Ade McCormack, author of the IT Value Stack. Welcome Ade.

Ade McCormack: Thank you. I am delighted to be here.

Kelsey Howarth: In your new book The IT Value Stack, you write that IT suffers from low self-esteem, sometimes deservedly so. Why?

Ade McCormack: Well, the self-esteem part comes about because of the nature of the relationship between, if you like, IT people and the users, often IT people feel put upon, they feel taken for granted, and to some extent feel like ancillary workers and not truly core to a lot of businesses. And I believe this is sometimes deservedly so because the IT industry doesn't have a fantastic track record, and even when it could manage expectations to minimize the pain, it fails to do that. And so basically sets it up -- itself up for user contempt you might say.

Kelsey Howarth: You state that IT needs to grow up; how can IT become more mature?

Ade McCormack: IT departments, a lot of IT departments today are like well behaved puppies and at their best; they do what they're told. And I believe the IT industry has a key role to play in business, and therefore needs to move from a BD and supplier up into strategic partner. And I think only when IT picks its rightful place at the board can we really say that the IT industry has grown up, and it's only at when that happens that organizations can reap, if you like, full value from their IT investments.

Kelsey Howarth: One of your many intriguing statements in the book is that most businesses don't know what business they are in; can you explain?

Ade McCormack: Well, a lot of businesses that started off in, let's say, banking or aviation and over time what become core to their business in many cases is brand management and information management. If I was running a major bank, I would probably outsource practically everything apart from my IS function because that's the thing at the end of day is giving me competitive advantage. If I was in the airline business I would outsource all my planes, all my ground staff, all my air staff, and focus my attention and energies on the brand marketing theme and the IS function. So I think organizations are slowly starting to wake up to the fact that they IT is not a peripheral to their business but it's actually their business.

Kelsey Howarth: So what is The IT Value Stack?

Ade McCormack: Most issues in relation of getting best value from the IT investment are not really related to technology management. As important as technology management is, there are some broader issues that need to be looked at, and I refer to strategy, the business strategy, the business processes, the people, how they -- users and technologies get on together, technology management is important, but I also look service management and what I call circulation management and value management. So I defined a stack of areas that needs to be addressed and each stack relies on the underlying stack. So for example if you don't take the strategy entwinement piece right there's no point investing in technology management. So this fact basically is a collection of best practice across seven different areas, again strategy, process, people, technology service circulation and value. And I've documented that method in a book of the same name and it's collaborated by a number of influential people in the industry, first in the IT industry and user industry and advisory industry.

Kelsey Howarth: In The IT Value Stack you recommend not business IT alignment but business IT entwinement; how do they differ?

Ade McCormack: Well, by Business IT alignment I think most people are aspiring to at best getting their IT function to be a well behaved supplier so that when they say, jump, the IT functions says, how high. I'm saying you won't be getting best value of your IT investment unless you go one step further, and by that I mean moving towards entwinement. So that means that the IT function is as influential in business matters as if you like the business itself, so rather IT being a reactive function that essentially responds to requests generated by the users whether they being requirements or problems, the IT function is actually sitting there at the boardroom table saying, look, we've got technology here that could change the business we're in to the benefit of the shareholders, and actually having the influence to drive that through. So I believe alignment is not enough, we need to move towards business IT entwinement.

Kelsey Howarth: Lawrence Trigwell, Associate Vice President of Financial Services at Cognos was a contributor to the Circulation Management chapter of the book; can you define what Circulation Management is?

Ade McCormack: Well, Circulation Management, I struggled to come up with that term for this layer of the stack, but by "Circulation Management" I mean the flow of data, information, knowledge and ultimately wisdom around the organization so that essentially staff can make better decisions when and where appropriate in a timely manner. So if you think of the organization as a body we're talking about the circulation of the life blood around the organization, and poor circulation, as we all know, leads to all sorts of medical complications.

Kelsey Howarth: It seems very similar to our viewpoint on performance management; are there any key differences there?

Ade McCormack: Well, I perhaps am not fully aware of your definition of performance management. I think in terms of business performance management there are some great similarity, so if you like having digital dashboards and understanding what the status is of your organization at any point in time or even understanding what the status is in terms of your marketplace at any point in time in terms of, you know, sales in certain products and so on. But I guess performance management can also extend into the performance of your IT infrastructure in terms of application optimization and infrastructure optimization, but I suspect in the context of Cognos, performance management is in terms of business performance and in that respect circulation management is a key aspect of that.

Advertisement: Performance 2008 is your direct path to performance management expertise and the most important one-day event of the year for anyone who is using, supporting or evaluating Cognos solutions. Get practical knowledge you can use right away. Meet product experts to learn how to increase the value of your current investments. Performance 2008 takes places in dozen of cities worldwide. Registration is free and is open now. Get on the path at cognos.com/performance2008.

(10:20)

Station ID: Interviews insights and opinions on performance management. You are listening to BI radio.

(10:30)

Delaney Turner: Hi, I'm Delaney Turner and today I'm talking to Davis Shepherd. Davis is the Financial Reporting Manager at Quiznos and today we're talking about managing performance, standardizing your financial reporting and implementing driver-based planning.

Davis, how do you and the finance organization at Quiznos help Quiznos manage performance and drive growth across all your different geographies and stores?

Davis Shepherd: Well, in the finance team the way that we help is by providing realistic goals and realistic tools to our - to the rest of our organization. In the past we've had a very segmented organization where each group's goals did not necessarily tie in to the goals of the entire organization so by putting performance management into place it really enabled us to really integrate all those goals and really have one plan that the entire company strives for.

Delaney Turner: Can you talk about Quiznos started on the journey to performance management?

Davis Shepherd: Absolutely. It really went down sort of two lines of thought I guess you could say we had an issue on the reporting side reporting our actual results whether that's financial statements or unit growth, those type of things just on the reporting side for actuals. And then we also had a difficult time preparing our forecasted budget and integrating that all together because it was mainly done both of those functions the reporting and the planning function were both done on excel. What we decided to do is to first of all sort and take a look at a financial reporting tool, we looked at several and ended up going with Cognos Finance. We needed a tool that would integrate with our general ledgers for our financial reporting and give us some standardized reporting across the organization that everyone could use, and also we wanted to be able to automate our consolidation process for financial reporting.

On the planning side we wanted to come up with a common set of drivers that are meaningful to the entire organization that we took a tieback to our goals. So we also wanted to integrate our historical performance into our planning tool to give us a sort of baseline for our planning process. So after implementing performance management now all of our business units are using the same reporting tool. We've greatly reduced dependency on excel and we got a single source of record for all of our financial reporting. On the planning side now all of our business units are all tied into the same set of assumptions and drivers across the organization, and it really helped us improve the version control of our budgets and kept everyone tied to that same set of numbers and also created a much tighter relationship between our actuals and budget when we are doing our monthly reporting.

Delaney Turner: Now, you've discussed drivers and streamlining your planning process, can you share with us how you're implementing that across the company?

Davis Shepherd: When in it comes to the planning process and simplifying the planning process, we really wanted to tie as much of our business as we could to key drivers and key assumptions, and in fact we've actually tied our entire - our entire P&L down to gross margin so all of our revenue and all of our cost of goods sold is tied to a set of maybe 20 key drivers, things like number of stores we plan to open, things like average sales for restaurants, and so by using these things we're able to auto -- by making one change in the drivers we can change our entire P&L and report against those drivers as well so because those are really the key things that drive our gross margin. Now, on sort of below the line in our SG&A section we've reduced the number of accounts that we plan to, we -- in prior years we plan to probably 80 to 100 different G&A accounts, general and administrative accounts, so we're down to probably 18 to 20 accounts that each of our functional groups like marketing and accounting and operations and development, they're down to just a very small set of accounts that they have to complete their G&A budget. So by doing that we've really saved a lot of time on our planning process.

Delaney Turner: Now, because you are focusing on just a few key drivers have you noticed that Quiznos' performance has improved?

Davis Shepherd: I think that it has because -- mainly because it gives the people in the field and our operations people, our development people, it gives them a smaller set of variables they need to look at. They can now concentrate on just this small set of company-wide goals and contribute individually to those - that small set of company-wide goals. So it makes it a lot cleaner for them when in terms of what they're thinking of what they're doing on a day-to-day basis to do their job, they know that they've - well we've got this set or the smaller set of key goals that we really need to strive for, and if we hit these key goals then Quiznos as a company will achieve its goals.

Delaney Turner: Now, you shared some information about the reduction and planning cycles and the efficiencies in your consolidation process. Are there any other benefits you realized from implementing a performance management system at Quiznos?

Davis Shepherd: With the internal controls that we have in place that are part of the Cognos systems for planning and finance, we've really increased accuracy. Everyone is very confident that when they run a report out of Cognos Finance they know exactly what they're going to get, they know it's going to be accurate, they know it's going to be timely. On the panning side as well, they know when they put some numbers into the system they know it's going to roll up correctly in to the company-wide budget. So that's been key is the integration and the accuracy of these two systems.

Delaney Turner: Can you share with us some tips, perhaps some best practices or lessons you've learned along your performance management journey?

Davis Shepherd: Definitely. One of the biggest things, and this is something that we just completed actually over this past weekend, is we've converted the entire company to a single chart of accounts. By going to a single chart of accounts it sort of gets each of our operating groups, each of our 35 legal entities or five operating business segments; get them all on a common language that we can use for financial reporting and for planning. And also in implementing this performance management system it's important to get a good business partner, Cognos has been a great business partner for us and also JCB Partners who worked on our implementation it's been a huge benefit for us. I don't think that we could have done it by ourselves, so that's another key step, is really pick somebody who know what they're doing and a system that you really like when you're going to implement performance management.

(17:50)

Advertisement: For retail Cognos is the ground control for mission critical insights, more than 325 retailers worldwide choose solutions from IBM, to manage costs, improve store performance and drive profitable growth. With reporting, analysis and our IBM Cognos performance blueprints get high value insights into customer buying patterns, align store operation with profit targets, monitor turnover, productivity and more. Dial up your performance with solutions from Cognos, visit www.cognos.com/groundcontrol.

Station ID: Insight on performance management from the people who shape the industry.

(18:40)

Ken Seeley: Welcome back to BI Radio. I'm Ken Seeley. In our first segment we asked a question, "Can IT grow up?" In our last segment we would like the answer, "Yes." Here, Sherry McPhail (phon) in conversation with Tina Jonas, Chief Financial Officer of the US Department of Defense. Well, making better decisions using a billion-dollar dashboard.

(19:06)

Sherry McPhail: Hello, I'm Sherry McPhail. Tina Jonas, the Chief Financial Officer for the US Department of Defense speaking about performance management at the 2008 IBM Cognos Government Forum in Washington, observed you can find the truth in numbers, and it's pretty and varnished. The challenges of managing a budget of over \$400 billion and assets of \$3.6 trillion are self evident. For an idea of this size, the US Department of Defense, if it were a country, would be equivalent to the 17th strongest economy in the world. Ms. Jonas has provided the strong budget leadership required at DOD since 2004, building on

her previous role as CFO of the FBI. Everyday she consults the Cognos dashboard on her desktop to monitor this budget and advance it towards a clean audit. Ms. Jonas joined me after her presentation to discuss good storeship (phon), a common language and the importance of the tone at the top.

Thank you for taking the time to speak with me, Ms. Jonas. Now, is it true that you have the hardest job in the world?

Tina Jonas: No. I have a hard job, but probably not the hardest job in the world. I would - actually I - my job is a terrific job, it's got pressures and stresses, but as I said this morning the Department's workforce and its people are as superb so it's a great joy (phon) like everyday to work with them, great honor as well.

Sherry McPhail: Now, and what has been called the most formidable management job in Federal Government, what reports or scorecards would you count as indispensable to your decision-making process?

Tina Jonas: I have an executive dashboard which I did not have when I walked into to my office. I was determined to make sure that decisions that I made were based on data, good information and any decisions that I was putting before the Secretary of Defense or other senior leaders of the Department needed to be based on data, and I didn't have it readily available, and so we, through the hard work and innovation of lot of our terrific folks, were able to pull together what I call my executive dashboard. It is a sense my financial site picture allows me to understand on a daily basis now what my cash balances are, believe or not, that was not available to the department of that size when I walked into my job. It allows me to take a look at how we're doing on efficiencies for accounting operations or progress in internal controls and other key metrics that we manage for the Secretary.

Sherry McPhail: And to go to Capital Hill for more?

Tina Jonas: Absolutely. And I think sometimes as to go to Capital Hill for less. An important part of - for example if we're not keeping track of our accounts receivable then we're being inefficient with the resources that have already been appropriated, and that is -- in my view that's not good storeship, it's not part of a good public record. I - we need to do better in that regard, and we are. One of the things I mentioned earlier today was just a metric that I have tracked for many years which is called interest penalties paid, it was a - in essence of fine that we paid if we paid our vendors late. And I thought, my goodness, we are just wasting, you know, hundreds of millions of dollars here if we don't fix this, and indeed we've saved over \$247 million just by tracking that. Our vendors love us, and in cases we cannot only - we pay ahead of time we get discounts, so that's some of the beauty, that's actually what I consider a lot of fun.

Sherry McPhail: And your executive budget dashboard helps you do this?

Tina Jonas: It's been enormous help to me, and I wouldn't - I just can't imagine doing my job without it.

Sherry McPhail: Now that you're completing your fourth year on this job, can you tell us what the greatest challenge is in managing this budget?

Tina Jonas: I really think that the greatest challenge in managing a budget of this size is really making sure that we get a department as large as ours and people on board. Ultimately budgets are about priorities, and we have many competing priorities in the Department, and so it's important that we get as many resources out to the important missions that we have and some times I'm not the most popular in the hallway if we have to - if we get fiscal guidance that is less than we hope to get, and we have to cut budgets. I would prefer rather than cut budgets is to find efficiencies, and so what we put in place we've been able to do.

Sherry McPhail: Now, on the two improvement efforts that you've undertaken during your term, let's talk first about the improving financial reporting; can you tell us a bit about the accomplishments and the difficulties in this area?

Tina Jonas: When we began the effort the Department had 4,000 different financial systems. They were not integrated, they couldn't talk to each other, in essence it was still piped and so we had no clear picture. In order to get at that we had to basically build a plan and execute to a plan that would allow us to correct that. And so we have done two things; one that we call our Financial Improvement and Audit

Readiness program which takes care of the process issues that are related to our material weaknesses, and that's where we've made enormous progress to date.

Secondly, we needed - for those issues that were systems related we needed to have a comprehensive program in the Department in order to have that data come up to the corporate level. And we've been able to do that through our Enterprise Transition Plan, our fire plan and Enterprise Transition Plans are connected and they are delivering results. So I mentioned this morning the deployment of some of our ERPs including one for our logistics program - our logistics agency and that program is delivering daily results in improvements in supply orders and, you know, increasing and speeding the supplies to the field used to take 24 hours to get something ordered and through; today it take four hours. So we're seeing enormous improvement through all this - all the things that we've done and it's bottom-line for our mission, our men and women in uniform. So that's -- makes it exciting.

Sherry McPhail: Now, for the benefit of other organizations that are facing the same challenge, what are the barriers in DOD to being able to issue a clean financial statement?

Tina Jonas: The barriers - the current barriers are deployment - I would say the long poll (phon) to mention is really deployment - successful deployment of our enterprise resource planning systems. And I think that we are very much on track to do that. But also it just needs to as we move forward it really take a committed leadership, you know, leadership comes from the top, tone at the top makes a big difference. So a committed civilian community and workforce is - that will carry this one through is really important, and of course some, you know, committed political administrations as well.

Sherry McPhail: Can you speak about the second improvement effort integrating business practices. Why was this necessary and how far have you come?

Tina Jonas: We had four -- essentially four different organizations that had different practices, had different ways of doing things. Let me give you one example that I think is a - brings a real visual, is we had accounting systems that all were different and had some of them accounting lines that code up at 200 characters long.

Sherry McPhail: Okay.

Tina Jonas: We couldn't talk to each other if we tried. If you sit - you need to get everybody on a common language and so it was very important for us to then work out that through a business practice and a process with set of business rules and we've been able to do that and now that is - in two months that will be complete, it will provide for the first time an opportunity for the department to have real business intelligence.

Sherry McPhail: Thank you. I really appreciate the time you took to speak with me today.

Tina Jonas: Thank you.

Sherry McPhail: To read more about Cognos solutions for defense, please visit www.cognos.com/defense. To read more about Cognos solutions for government, please visit www.cognos.com/government.

(28:00)

Advertisement: IBM Information on Demand 2008, the premier information management event for business and IT professionals and IBM, will be there. Choose from over 750 business leadership and skill building sessions, 60 deep dives into Cognos products and solutions and the latest on Cognos and IBM integration. Join MC Martin Short at the Mandalay Bay in Las Vegas, October 26. Early bird registration closes August 15th. For more information, visit www.cognos.com/newsletter.

(28:42)

Ken Seeley: Well that's to wrap. I'd like to thank our guests today, Author Ade McCormack from the US Department of Defense; Tina Jonas; and from Quiznos, Davis Shepherd. A special thanks as well to our contributing producers; Kelsey Howarth, Delaney Turner, Kelly Allen and Sherry McPhail. Thanks to our producer and audio engineer Derek Schraner (phon) who composed all the original music you hear on BI Radio, and for making us sound so good. A remainder to check us out online at radiocognos.com where

you can listen to previous shows, download individual segments, and view the transcript of each broadcast. If you have a question or care to comment about what you hear on BI Radio, send us an email at radio@cognos.com. Thanks for listening. I'm Ken Seeley. We'll see you in about six weeks.

(30:00)

END OF RECORDING