New Zealand Post

Financial Modelling with TM1

Graham Henderson & Louise Davenport

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Agenda

- **New Zealand Post Profile**

- **Balance Sheet and Cash Flow using TM1**

- **Balance Sheet Allocations using TM1**

- **Costing Models on a Shoestring Budget**

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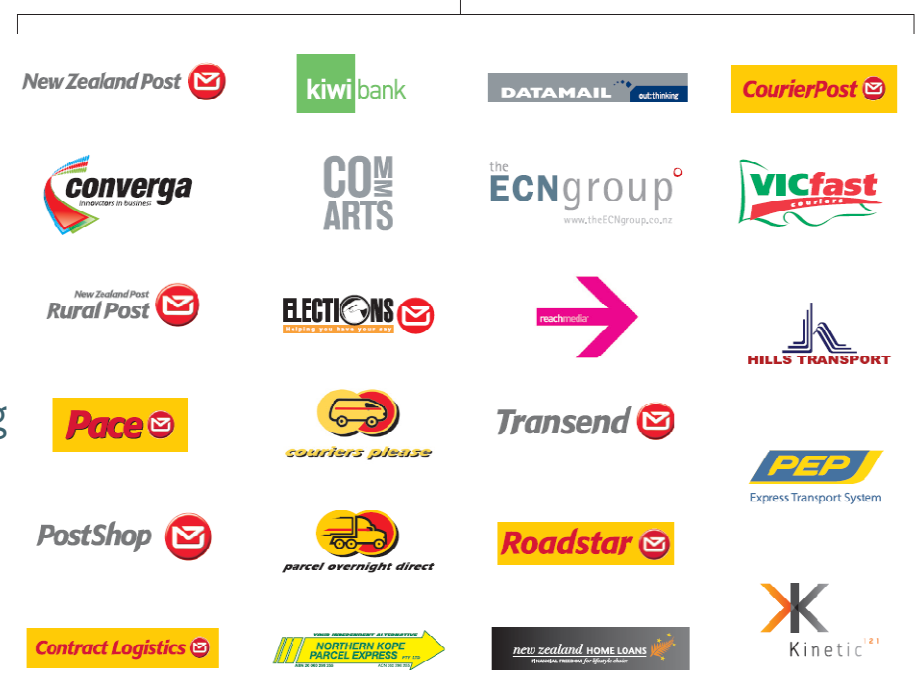
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About New Zealand Post

New Zealand Post is …

- ▸ Revenue $1.3 billion ~ standard letter price 50cents

- ▸ NPAT $110m ($94m before Gain on Sale of Australian Business and Fair Value adjustments)

- ▸ 10,000 Employees

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New Zealand Post Group

More than just Mail …

- Postal Business
- Retail Network
- Bank
- Transport and Courier (NZ and Aus)
- Mail House
- Business Process Outsourcing
- Information Technology
- International Consultancy
- Elections Registrar

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TM1 at New Zealand Post

TM1 implemented in April 2004, now is used for.....

- Budgeting, Forecasting, Planning (P&L, Balance Sheet, Cash Flow)

- Financial Reporting – monthly management accounts, statutory reports, tax calculations, balance sheets and cash flow statements

- Revenue analysis (customer and detailed product level)

- HR Statistics ($, hours, FTE's per pay period)

- Cost and Profitability Models

- Inventory (replenishment analysis)

- Debt (Aged Debt by Customer)

- Projects Reporting

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Balance Sheet and Cash Flow using TM1

What used to happen…

- ❯ Cash Flow Statements cannot generally be generated out of GL Systems and require manual calculations in excel.

- ❯ Budget / Forecast / Plan Balance Sheets would also need to be manually modelled in excel.

- ❯ Manual spreadsheets are prone to errors and version control is difficult.

- ❯ Analysis between different scenarios would involve linking different spreadsheets.

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Balance Sheet and Cash Flow using TM1

What did TM1 enable…

- Budget, Forecast and 3 Year Plan Balance Sheets can be derived off Profit and Loss and Capex numbers entered by the business.

- Real time

- One source of the truth

- Cash Flow Statement automatically calculates as soon as you have a Profit and Loss and Balance Sheet for Actuals as well as Budget, Forecast and 3 Year Plan scenarios.

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Balance Sheet and Cash Flow using TM1

INTEGRATED FINANCIAL REPORTING
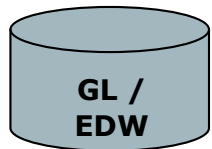
Scenario	P&L	Balance Sheet	Cash Flow
Actuals			
Budgets Forecasts 3 Year Plan			

GL / EDW

User Entry

TM1 Modelling (Rules Engine)

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Balance Sheet and Cash Flow using TM1

How we do it in TM1…

- ❯ A Balance Sheet is calculated using a few basic TM1 rules around tax payments, Debtor and Creditor Days, Bonus Payments, Depreciation and Amortisation of Fixed Assets, etc with the Balancing item being Cash.

- ❯ The Cash Flow statement calculated using TM1 rules around the movement in the Profit and Loss and Balance Sheet.

- ❯ At New Zealand Post we model Balance Sheets and Cash Flows at a summary level.

- ❯ Demo…

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Plan Balance Sheet Entry

2010	2010 Plan			
NZPG – NZP Group	Opening Balance	Movement	998 YTD	Opening Balance
ASSETS				
Current Assets				
Cash and Bank				
100 - Cash	42,923,287	-	42,923,287	42,923,287
120 - Bank	345,191,434	-	423,999,664	423,999,664
Total Cash and Bank	388,114,721	78,808,230	466,922,950	466,922,950
300 - Short Term Deposits	0	-	0	0
Debtors and Other Assets				
Debtor Days	25.00	At moment drivers from 10010 forced down		25.00
140000 - Debtors Control	67,011,316	(1,702,007)	65,309,310	65,309,310
140010 - Debtors Control -Legacy System	-	-	2,505,799	2,505,799
140020 - Debtors Control -Open Items	1,406,597	-	1,406,597	1,406,597
140200 - BoxBag Debtors	1,028,995	-	1,028,995	1,028,995
140410 - International Settlement Debto	83,439,179	-	83,439,179	83,439,179
140411 - Other Debtors-Courier Deductio	0	-	0	0
140412 - Other Debtors-Courier Scanners	14,300	-	14,300	14,300
140417 - Philatelic Debtors	-	-	-	-
140420 - Diners/Amex	188,596	-	188,596	188,596
140422 - Cash Advances	1,322,965	-	1,322,965	1,322,965
140425 - ACC Refunds Due	(679)	-	(679)	(679)

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NZPG - NZP Group

Cashflow ($)	2008/09 FQ2	2009/10 Plan	2010/11 Plan	2011/12 Plan
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	1,131,677,316	1,121,184,354	1,145,009,879	1,193,458,262
Net Interest Received (Paid)	137,125,501	194,168,574	223,561,156	253,549,354
Dividends Received	9,359,277	11,333,111	8,500,000	8,500,000
Payments to Suppliers and Employees (Incl. GST)	(1,082,663,775)	(1,079,447,306)	(1,135,519,043)	(1,183,779,865)
Net Receipts from / (Payments to) Agencies	(34,647,431)	(26,904,602)	(29,480,192)	(30,880,715)
Income Tax Received / (Paid)	(14,183,235)	(29,531,318)	(40,735,585)	(49,171,608)
Net Cash Inflows / (Outflows) from Operating Activities	**146,667,654**	**190,802,813**	**171,336,214**	**191,675,429**
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale / (Purchase) of Property, Plant and Equipment	(39,119,029)	(73,244,427)	(67,023,192)	(53,861,023)
Sale / (Purchase) of Investment Securities	(1,015,469,132)	686,068,291	109,000,000	152,000,000
Lending to Customers (Kiwibank Loans & Advances)	(2,347,230,267)	(2,000,000,000)	(2,000,000,000)	(2,000,000,000)
Investments in Subsidiaries, Associates and Other	18,854,537	(7,117,500)	12,325,977	12,154,977
Net Cash Inflows / (Outflows) from Investing Activities	**(3,382,963,891)**	**(1,394,293,636)**	**(1,945,697,215)**	**(1,889,706,046)**

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Balance Sheet Allocations in TM1

What used to happen…

- Balance Sheet and Cash Flow reporting only available at Entity or Group level – unable to view at business unit level within the Parent Entity.

- Due to:

    - Inaccurate loading of Historical balances into ERP system.

    - Ongoing issues with sub-ledger systems not allocating balances.

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Balance Sheet Allocations using TM1

What did TM1 enable...

- With the functionality in TM1 we are now able to split the parent Balance Sheet by the main businesses that sit within it.

- The Allocated Balance Sheet allows the businesses to see what their Balance Sheet is and now they can start to manage their working capital.

- Next step is to derive Cash Flow Statements by business

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Balance Sheet Allocations using TM1

How we do it in TM1…

- We created a Mapping Cube that allocated certain GL accounts to businesses where there is a clear distinction and identified accounts that need to be split by other methods.

- Where a GL account is to be split between different businesses, balances are allocated by pulling information derived from sub-ledgers which has been populated in other TM1 cubes.

- Demo…

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Balance Sheet – Before & After Allocations

2009
May YTD

Summary Balance Sheets - by Business Group
($'000's)

	Corporate/ Other	PSG	Retail	Stamps	Other Enterprises	Properties	Total
Before:							
Current Assets	(33,427,747)	(240,193)	33,812,333	88,750	56,491	66,595	356,228
Non-Current Assets	360,143	54,507	13,146	(201)	(3,037)	255,322	679,879
TOTAL ASSETS	**(33,067,604)**	**(185,686)**	**33,825,479**	**88,549**	**53,454**	**321,917**	**1,036,108**
Current Liabilities	(26,207,034)	(6,440,425)	32,880,106	6,245	8,587	(1,691)	245,787
Non-Current Liabilities	146,511	0	0	0	(101)	0	146,410
TOTAL LIABILITIES	**(26,060,523)**	**(6,440,425)**	**32,880,106**	**6,245**	**8,486**	**(1,691)**	**392,198**
NET ASSETS	**(7,007,081)**	**6,254,739**	**945,373**	**82,304**	**44,968**	**323,607**	**643,910**
TOTAL EQUITY	**(7,007,081)**	**6,254,739**	**945,373**	**82,304**	**44,968**	**323,607**	**643,910**
After:							
Current Assets	10,050	220,671	43,504	9,594	5,815	66,595	356,228
Non-Current Assets	306,854	65,845	31,262	597	30,080	245,242	679,879
TOTAL ASSETS	**316,904**	**286,515**	**74,765**	**10,191**	**35,895**	**311,837**	**1,036,108**
Current Liabilities	10,234	174,163	46,136	1,622	9,224	4,408	245,787
Non-Current Liabilities	146,410	0	0	0	0	0	146,410
TOTAL LIABILITIES	**156,644**	**174,163**	**46,136**	**1,622**	**9,224**	**4,408**	**392,198**
NET ASSETS	**160,259**	**112,353**	**28,629**	**8,569**	**26,672**	**307,429**	**643,910**
TOTAL EQUITY	**160,259**	**112,353**	**28,629**	**8,569**	**26,672**	**307,429**	**643,910**

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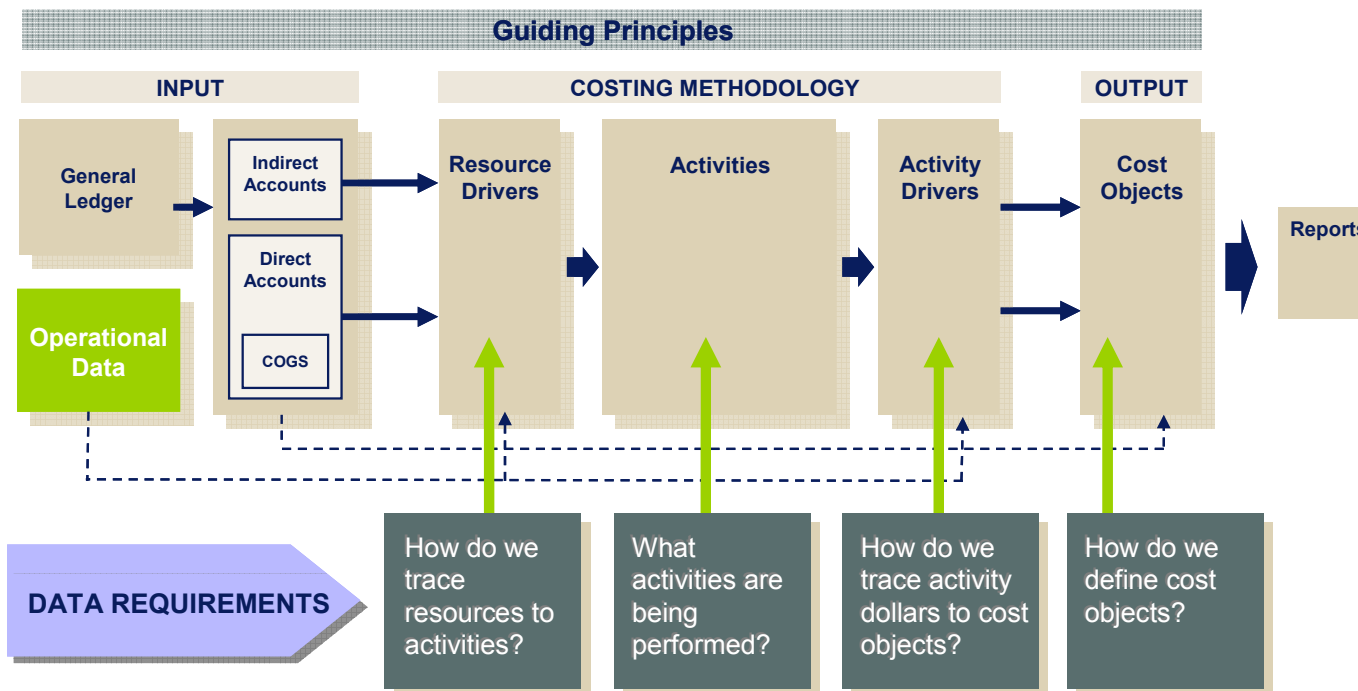
Costing Models using TM1 (ABC on a Shoestring Budget)

The Business Imperative (why did we need a costing model)…

- Improve our understanding of the Business
  - What is profitability by product? by line of business? By market segment?
  - Is there cross subsidisation occurring?

- Support Business Decisions
  - Pricing decisions planning (when and by how much?)
  - Individual customer bids
  - Regulatory / Access Pricing negotiations
 - Internal Transfer Pricing

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Costing Models using TM1 (ABC on a Shoestring Budget)

The key ingredients for a costing model…

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Costing Models using TM1 (ABC on a Shoestring Budget)

Identifying Activities that can have costs allocated is not a two minute task…

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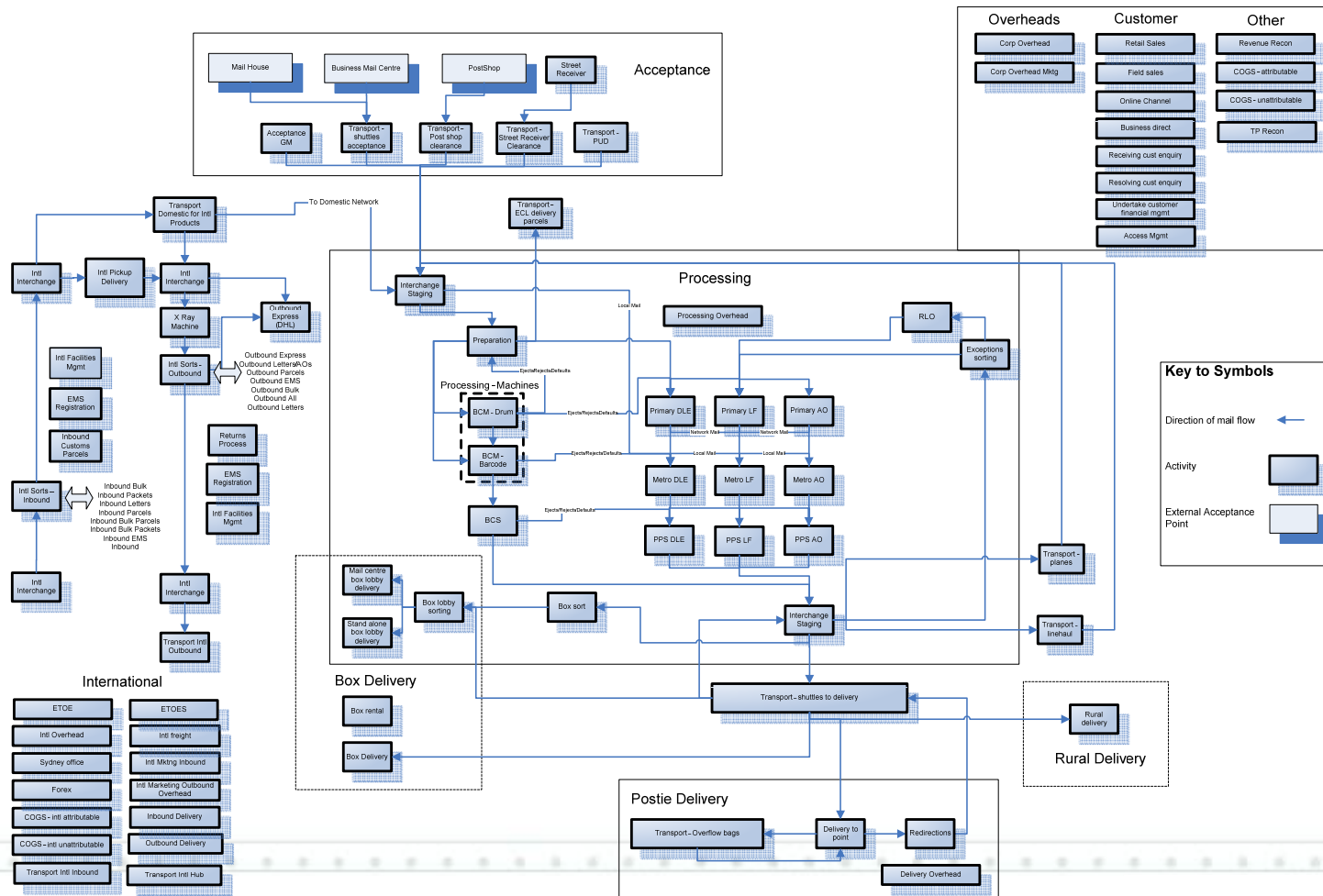
Costing Models using TM1 (ABC on a Shoestring Budget)

What TM1 functionality is used to make the costing model work…

- The model utilises the linked cubes capability of TM1 (14 cubes used for the model).
- Turbo Integrator processes used to load data, as well as undertake some of the transfer of allocated data between cubes.
- Rules used for allocation of some costs to activities and cost objects.

Also importantly…

- The model is tiny (compared to full-on costing systems). 2.5GB on a 64 bit server.
- Developed at a fraction of the cost – One TM1 consultant for 6 months v SAS consultancy quote >$1m!
- Other models have been developed along similar lines (100% internally developed) – Retail Costing, IT Costing and Allocation Model.
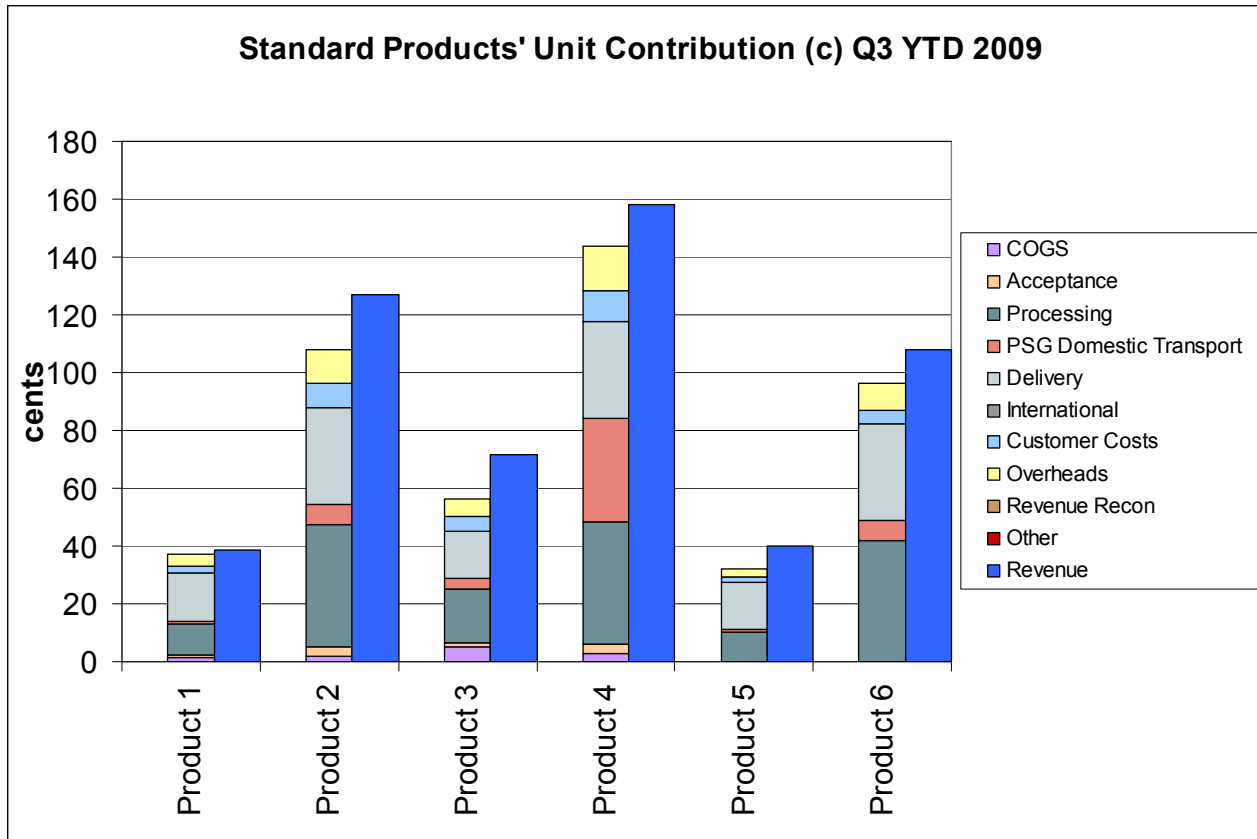
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Costing Models using TM1 (ABC on a Shoestring Budget)

Demo (Outputs)…

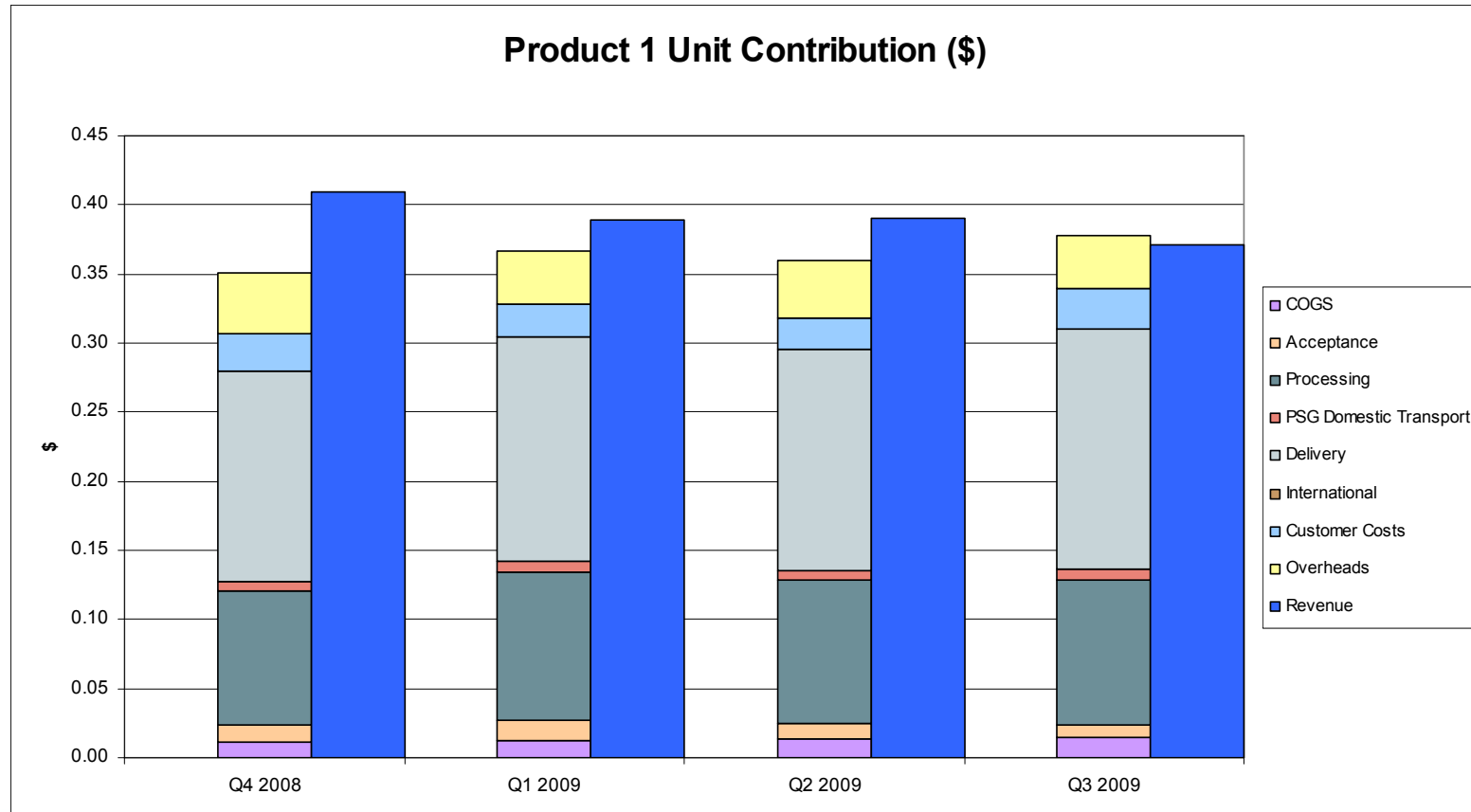**Standard Products' Unit Contribution (c) Q3 YTD 2009**

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Costing Models using TM1 (ABC on a Shoestring Budget)

Demo (Outputs)…

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