EXPENSE PLANNING AND CONTROL



IBM COGNOS
PERFORMANCE BLUEPRINT

A WEB-BASED PROCESS FOR MANAGING EXPENSE PLANNING

VERSION 2.0





EXECUTIVE SUMMARY

This application brief demonstrates best practices for managing expense projections using IBM Cognos 8 Planning. Implementing this Blueprint will enable forward-looking visibility into expense decisions at both divisional level and corporate levels. The IBM Cognos Expense Planning and Control Performance Blueprint uses projections from other Blueprints or planning systems as well as actual history to drive expense planning processes. The Blueprint and processes described in this document are generic for expenses in any US industry and can be readily configured to support the complexity of fixed and variable expense requirements for any industry across many countries.



OVERVIEW

Aside from revenue, expenses are typically the main focus of corporate profit and loss statements. At the corporate level, maximum effort is made to manage expenses and set spending guidelines, while at the divisional level, line managers make expense decisions to optimize efficiency and productivity. Forward-looking collaboration must occur so that divisional decisions are aligned with strategic and tactical corporate goals. The *Expense Planning and Control Blueprint Version 2* from Cognos, an IBM company, was created using the collective experience and applied best practices of thousands of Cognos customers around the world.

DRIVER-BASED PLANNING

Because experts tend to agree that planning, budgeting, and forecasting involve too much detail and not enough focus on the key metrics that drive expenses, *driver-based planning* is featured in this *Blueprint*. Driver-based planning is based upon common components that typically drive a given expense. For example, office supply expense could be easily determined by using a volume or driver multiplied by a given rate. So, office supplies = headcount (driver) * \$15 (rate). This approach is superior to merely entering estimated expense dollars. The driver-based approach makes clear how expenses are actually determined and enables more rapid adjustments to plans as need arises.

Expense plans are dependent upon a number of factors including drivers, driver-based rates, season-

ality curves, or actual history. For example, head-count imported from the *Headcount and Compensation Blueprint* can be used to drive expenses in many areas, such as office supplies, cell phone costs, or tuition reimbursement.

Though this *Blueprint* requires minimal user input, it yields a great deal of information. Only three tabs require input:

• Manual Entry

Users enter expenses not captured elsewhere and assigns them to a particular account

• Expense Baseline

Users enter data that may be adjusted on an annual basis and then annualized within the *Expense Detail* tab based upon a chosen profile

• Expense Detail

Users choose which driver or profile they wish to use for a particular expense line. Some information within this *Blueprint* is sourced from other *Blueprints*, IBM Cognos 8 Planning models, or other sources. For example, depreciation expenses are linked from the *Capital Expenditure Blueprint*, while payroll information is fed from the *Headcount and Compensation Blueprint*. Expense Planning and Control Version 2, relies upon the use of the *Allocations* blueprint to allocate expenses from cost centers to profit centers within the *Expense Planning and Control Version 2 blueprint*.

BLUEPRINT OBJECTIVES

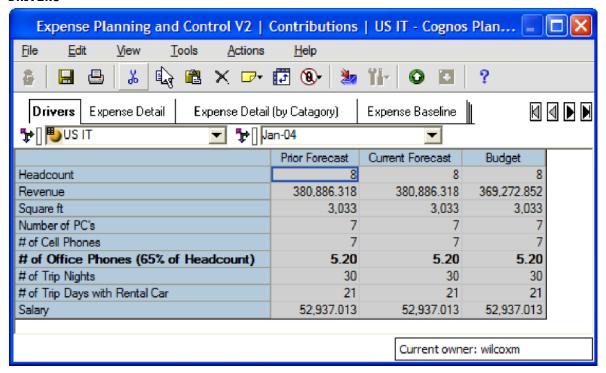
The following planning, budgeting, and forecasting objectives are achieved using the *Expense Planning and Control Blueprint*:

- Manage expenses based upon drivers and historically reliable rates.
- Allocate expenses equitably based upon historicalpatterns or drivers such as headcount over a certain number of periods.
- Consolidate expenses enabling seamless expense planning.
- Link salary and headcount projections as drivers for certain expense accounts in the plan.
- Currency planning and conversion capabilities.
- Internal transfer planning capabilities.

KEY COGNOS PLANNING BENEFITS

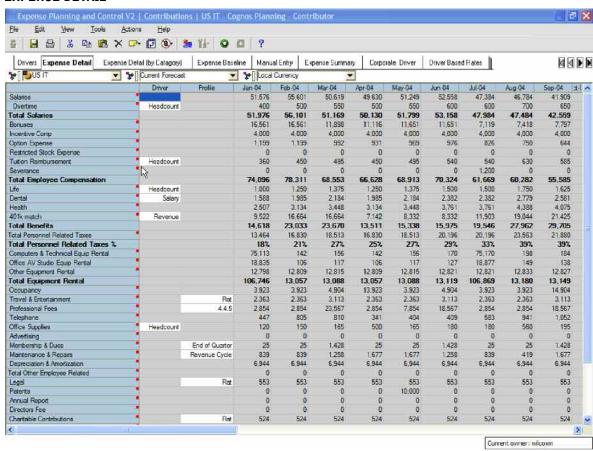
- Flexible and powerful model development. The Analyst component of IBM Cognos 8 Planning supports any business planning model or customizing of the Expense Planning and Control Blueprint.
- Web-based deployment of models for process workflow, data collection, and consolidation:
 - Real-time workflow
 - Real-time consolidation
 - Real-time calculations in the browser for immediate results
 - Industry leading what-if features for the most accurate plans, budgets and forecasts
- Scalable architecture with proven deployments to thousands of users.
- Easy links to financial and operational plans facilitating cross-enterprise collaboration.
- Ensured accuracy of plans using form-based planning with selection boxes to drive application logic and calculations.

DRIVERS



On the first tab, *Drivers* are stored by month, cost center, and version. They are used on the *Expense Detail* tab. The selection on the *Expense Detail* tab causes the appropriate driver to be linked over to *Driver Based Calc* and then properly calculated in real time. The *Drivers* tab is for informational purposes and is used in calculating driver-based expenses; no selections or changes are allowed on this tab.

EXPENSE DETAIL

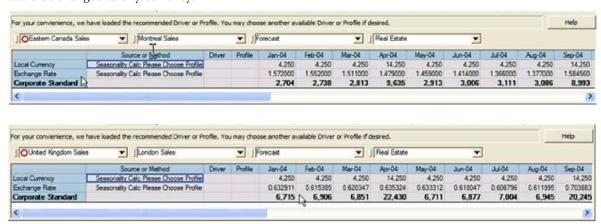


The Expense Detail tab is used to select the desired driver or profile for a given expense item.

Fields in gray are non-editable. They provide information or are linked from other tabs or sources. Fields in white are editable and—on this tab—are used to select the desired driver or profile for a specific line item. Although selectable fields have been pre-populated using management-approved methods, users may select from any of the available choices. The number and nature of choices available is determined by the *Blueprints* administrator prior to deployment.

In the example above, the Membership & Dues entry spreads the amount calculated in the *Expense Baseline* tab, based on the profile selected: End of Quarter (\$5,610 spread based upon the End of Quarter profile). Notice the amount each month is increased by the \$25 indicated as a Membership & Dues expense on the *Manual Entry* tab. By making a few simple selections and entering a minimal data inputs an entire expense model is produced.

Note that up to this point, expenses have been calculated in the cost center or department's local currency. On the *Expense Detail* tab, expenses are converted into the corporate standard. Converted expenses are brought forward to the *Expense Summary* tab. In this *Blueprint*, the corporate standard is US dollars, but could be changed to any currency.

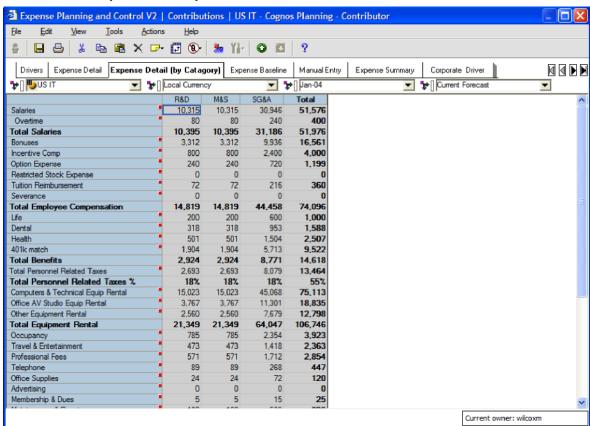


The choices made on the Expense Detail tab were:

Driver: Profile:

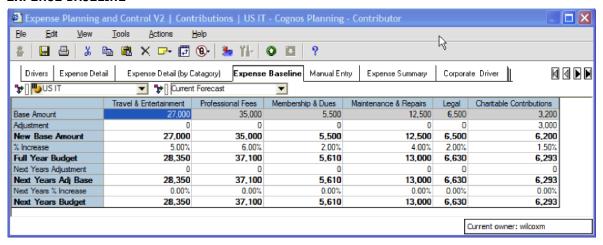
Headcount Revenue Number of PC's Salary Flat 4,4,5 Revenue Cycle Sales Cycle End of Quarter

EXPENSE DETAIL (BY CATEGORY)



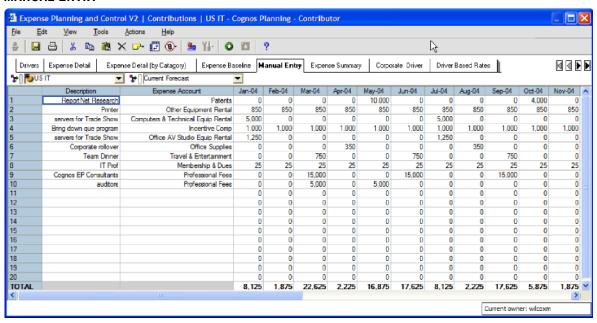
The *Expense Detail (by Category)* tab breaks down each expense item by month, version, and currency into its category type based upon a preset corporate guideline. This breakdown may then be used to bring the expenses into a P&L by category.

EXPENSE BASELINE



Expense Baseline, the fourth tab and second entry point for input is used to enter data that will be annualized within the Expense Detail tab, based upon a chosen profile. Data entry begins with a base amount typically established using historical data. The amount may be adjusted up or down, by a fixed dollar amount, and/or a percentage. In the figure above, a one-time expense adjustment of \$3,000 is entered on the Adjustment expense line for Charitable Contributions. Then a 1.5 percent increase is forecast for the year. Because the model enables planning forward two years, once Full Year Budget is calculated, adjustments for the following year may be made. The Expense Detail tab (described above) provides an opportunity to select a profile upon which to allocate full-year amounts across time periods.

MANUAL ENTRY



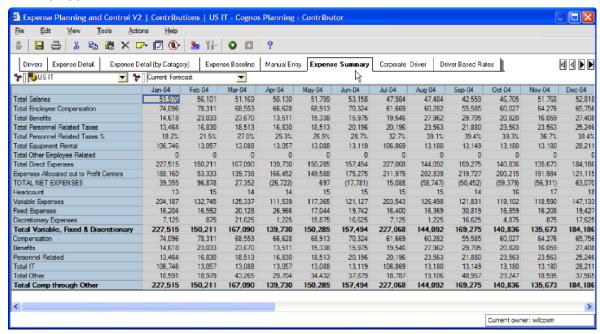
The *Manual Entry* tab manages expense items that may not lend themselves to driver-based calculations or seasonality profiles or may be in addition to those items. On line 8 above, there is an entry for an IT Prof which is going to be an addition to Membership & Dues calculated on the *Expense Baseline* tab. This amount will be added to the Membership & Dues entry on the *Expense Detail* tab. The entry will hit the expense account selected in the second column. (A brief description appears in column 1). A selection is then made from the Expense Account column, and the dollar amounts for this entry are entered into the appropriate time period(s).

The Expense Account selection is chosen from an approved dropdown list of acceptable Expenses:



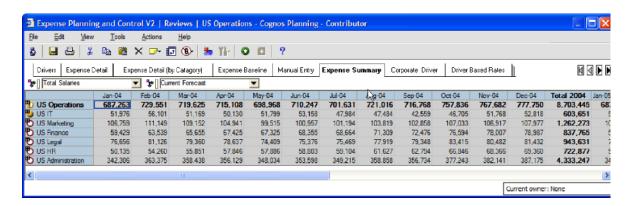
As changes are made, they are highlighted in BLUE along with any cells affected by the change. Further, expense impacts are made automatically to subsequent tabs affected.

EXPENSE SUMMARY



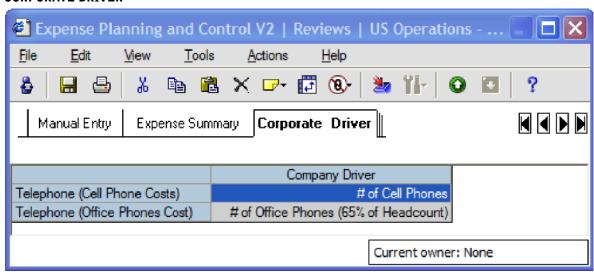
To review, entries were made on three tabs: *Expense Detail*, *Expense Baseline*, and *Manual Entry*. Decisions were made regarding the expense amounts and how they would be calculated. In *Expense Summary*, expense lines are consolidated from the detail level to facilitate planning and comparisons across departments. In the figure above, the focus is the Current Forecast expenses for "US IT."

In the figure below, the *Expense Summary* tab is re-oriented to show Current Forecast for Total Salaries across a number of different cost centers. Re-orientation is as simple as a dragging the Cost Centers drop-down box to the rows.



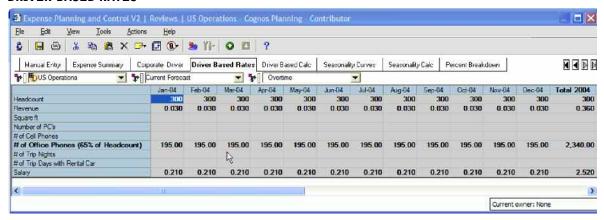
The remaining tabs in this *Blueprint* were used to properly calculate or allocate expense. They may be left as read-only or hidden entirely from end-users. The first and seventh-through-twelfth tabs are used to drive calculations or are where actual calculations take place. User access is determined by the *Blueprints* administrator. Tabs 7 through 12 are included here for informational purposes only.

CORPORATE DRIVER



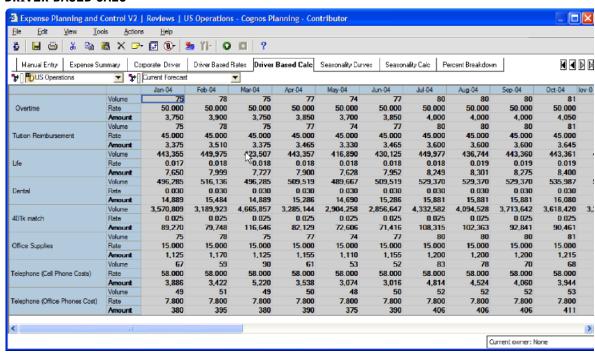
Certain drivers are determined centrally by finance or operations. No choice is offered to the user. *Corporate Drivers* feeds the *Driver Based Calc* tab.

DRIVER-BASED RATES



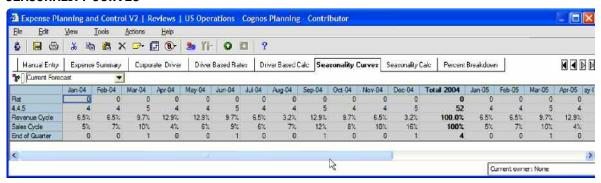
Drivers Based Rates are stored by month, expense type, driver, version, and cost center. They are selected on the *Expense Detail* tab. The selection on the *Expense Detail* tab causes the appropriate rate to be linked over into *Driver Based Calc*.

DRIVER BASED CALC



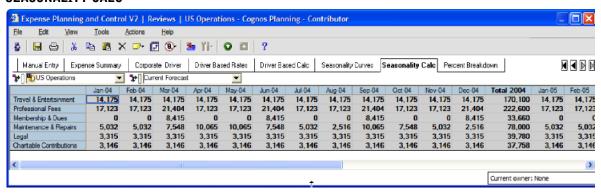
Based upon the driver chosen on the *Expense Detail* tab, the appropriate driver (volume) and rate are linked to calculate the driver-based expense for that line item. The calculated expense is then linked back to the *Expense Detail* tab.

SEASONALITY CURVES



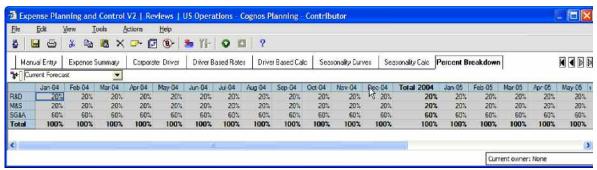
The *Seasonality Curves* tab contains the profile information selected on the *Expense Detail* tab. Based upon the choice made, the appropriate profile is linked into the *Seasonality Calc* tab.

SEASONALITY CALC



The *Seasonality Calc* tab is where the dollar amounts calculated on the *Expense Baseline* tab are spread based upon a chosen profile. These profiled numbers are then linked back to the *Expense Detail* tab.

PERCENT BREAKDOWN



Percent Breakdown is used to break down expense into their appropriate categories when linking from **Expense Detail** to the **Expense Detail** (by category) tab. These percentages would most likely be set by finance staff based upon historical trends.

ABOUT COGNOS, AN IBM COMPANY

Cognos, an IBM company, is the world leader in business intelligence and performance management solutions. It provides world-class enterprise planning and BI software and services to help companies plan, understand and manage financial and operational performance. Cognos was acquired by IBM in February 2008. For more information, visit http://www.cognos.com.

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ABOUT THE COGNOS INNOVATION CENTER FOR PERFORMANCE MANAGEMENT

The Cognos Innovation Center was established in North America and Europe to advance the understanding of proven techniques, technologies, and practices in planning, analytics, performance management and business intelligence competency. The Innovation Center is dedicated to transforming routine performance management practices into "next practices" that help cut costs, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

Staffed globally by experts in planning, technology, and performance and strategy management, the Innovation Center partners with more than 600 Cognos customers, academicians, industry leaders, and others seeking to accelerate adoption, reduce risk, and maximize the impact of technology-enabled performance management practices.

