

# Integrated Financial Forecasting and Planning Performance Blueprint Powered by TM1



## Introduction

This application brief illustrates a Web-based application for managing integrated financial statements. The *IBM Cognos Integrated Financial Forecasting and Planning Performance Blueprint Powered by TMI* enables operations to focus on plans while affording finance and senior management the visibility to ensure that operational plans are in synch with corporate objectives. The *Blueprint* establishes the targets and metrics used to measure organizational success. Response to changing business conditions is usually expressed as an updated forecast. As forecasts change, integrated financial statements can be instantly updated to see the effect on key financial objectives such as DSO and cash flow per share.

## Integrated Financial Forecasting and Planning Blueprint Powered TMI Overview

Throughout a corporation during the planning cycle, there will be models supporting different types of planning processes, such as sales planning, headcount planning and capital planning. These models collect data at the micro level. Integrated financial statements make up the macro level model for consolidating and analyzing the results of the micro planning processes. At a corporate level, the results of the planning process should be validated against the strategic objectives of the corporation and provide predictability into the long range plan.

The overall process is characterized by the need to:

- Establish relationships between profit metrics and cash flow requirements.
- Synchronize operational plans with integrated financial statements to understand their impacts on the balance sheet and cash flow.
- Model alternative business scenarios quickly to make optimal investment decisions.

The process begins with setting financial objectives expressed as financial targets or goals to establish operational plans, budgets and forecasts. Objectives are discussed and finalized, then expressed as a set of tangible targets in the form of financial statements—initially an income statement. Revenue targets are modeled based on agreed-upon financial objectives, then measured against profitability objectives to identify margin requirements. Resources can now be properly allocated throughout the company.

As income statements are finalized, they're tied to other financial statements that include the balance sheet and cash flow. Accounts receivable, accounts payable and major capital expenditures are modeled to analyze key metrics. Best-in-class companies iterate scenarios between the income statement, balance sheet and cash flow to ensure that an integrated view of all statements and objects are considered when planning for the upcoming fiscal year.

When integrated financial statements are validated, they are used as targets to build corporate operational plans, which are then linked back to integrated financial statements to validate targets. Changes to plans or targets are reflected in integrated financials to increase the probability of attaining these financial goals.

The minimal requirement for most corporations includes a complete set of financial statements consisting of an income statement, balance sheet, cash flow and key ratios and metrics. The statements must be integrated, so that any change in underlying assumptions ripples through all of them: days sales outstanding (DSO) assumptions affect the balance sheet along with cash position; revenue plan assumptions affect balance sheet and cash flow and so on. Because such targets are frequently iterated, accuracy is necessary and integration of these statements must be assured.

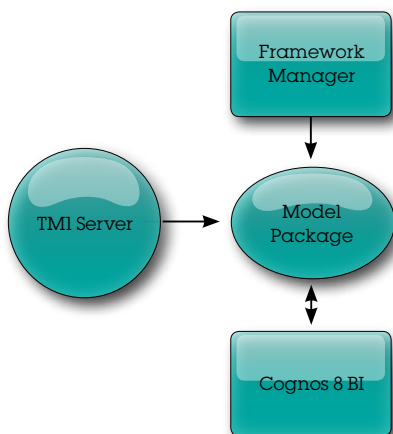
In high-performance companies, financial statements are the baseline for measuring results and are dynamic documents in constant use, not mere reports collecting dust on a shelf. The *Integrated Financial Forecasting and Planning Blueprint Powered by TMI Blueprint* helps your company use your financial statements to improve business outcomes and optimize performance.

### Blueprint objectives and architecture

The *Integrated Financial Forecasting and Planning Blueprint Powered by TMI* achieves a number of the objectives of integrated financial planning:

- Connects operational plans to the financial statements
- Provides the basis for strategic and operational plan and forecasts
- Validates bottom up plans against strategic objectives

The architecture in the following diagram shows the high-level components of the *Blueprint*.



### Business intelligence model

The business intelligence (BI) components of the *Blueprint* focus on providing vital information to executives. Real-time information provides the tools to evaluate performance against existing plans, make decisions with causal effect on plans and incorporate strategic initiatives to drive business performance.

The benefits of the BI model include:

- Real-time data access
- Dashboards that provide key information relevant to business function
- Drill-down from dashboards to answer questions and depict status from various perspectives
- Cross-organizational reporting (multi-node reporting)
- Visual aids showing status of the plan versus performance for evaluation and understanding of its impact
- Filtering options for further focus on needed information
- Ad-hoc query to slice-and-dice information to answer questions and monitor impact
- Dimensional analysis to analyze impact
- Actual versus budget and forecast
- Flexible and extensible modeling

These features help you make informed decisions about integrated financial statements and their relationship to strategic maps and corporate goals.

The BI model presents information in many forms, with the capability to drill down to more detailed analyses and include up-to-date information from IBM Cognos enterprise planning software. Folders, dashboards and reports are provided to drive the decision-making process. Some noteworthy features are:

- Reporting for all organization levels (multi node reporting)
- In-body prompts allowing for selection of areas of interest in the report
- Clickable links to sections of a multi-section report
- Drill-down to further detail

**Workflow**

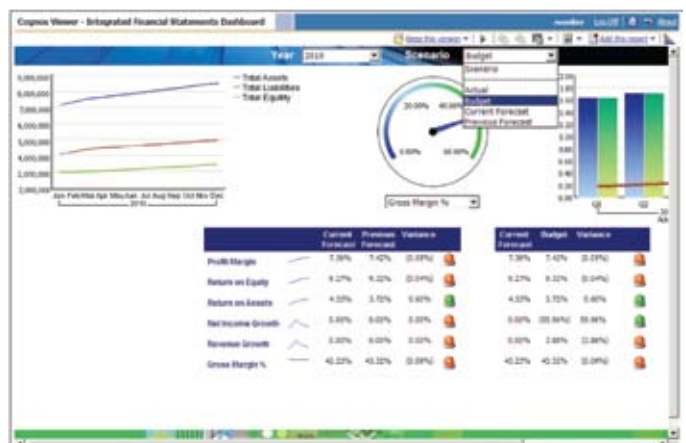
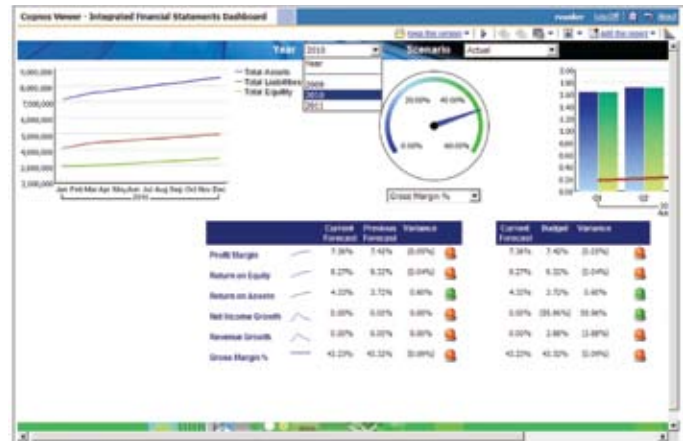
In a typical workflow, after a company has set its strategic objectives, the rest of the organization uses the targets to create tactical operational plans for the upcoming year. These operational plans are typically driver-based and linked to key business factors such as number of units sold, product mix and so on. After plans are reviewed and approved, they are tied back to integrated financial statements to ensure they meet corporate objectives.

With interactive scenario analysis and team input, company resources and plans often shift to meet financial objectives. Throughout the process, operational plans must be continually translated into a set of financial numbers.

Financial goals and objectives might need adjusting as operations provides a clearer picture of what is achievable with the resources at hand. The association between integrated financial and operational plans leads to alignment and commitment to reach corporate objectives.

**Executive reporting**

For an executive, the dashboard report shows a great deal of information about his or her company and provides immediate information about any anomalies. Executives can select the time period, version or both as shown in the following images. This report also shows major performance indicators.



Users may also refer to specific reports and or charts for further information.



## Planning model

The planning model of the *Integrated Financial Forecasting and Planning Blueprint Powered by TM1* provides Web-based deployment of process workflow, data collection and consolidation. In addition, you can customize this model as needed. Its benefits include:

- Flexible Blueprint development using IBM Cognos TM1
- Web-based deployment of models for data collection and consolidation
- Real-time workflow
- Real-time consolidation
- Real-time browser-based calculations to yield immediate results
- Scalable architecture
- Capability to execute form-based planning using selection boxes to drive application logic and calculations
- Sandboxing to create personal scenarios for what-if analysis

## Workflow

Executives can see the workflow status of the application and are co-owners of that information, able to make edits as required. Workflow status changes, calculations and aggregations occur in real-time as users save information, enabling frequent planning iterations. Before data is entered, the plan is designated as **Not Started**.

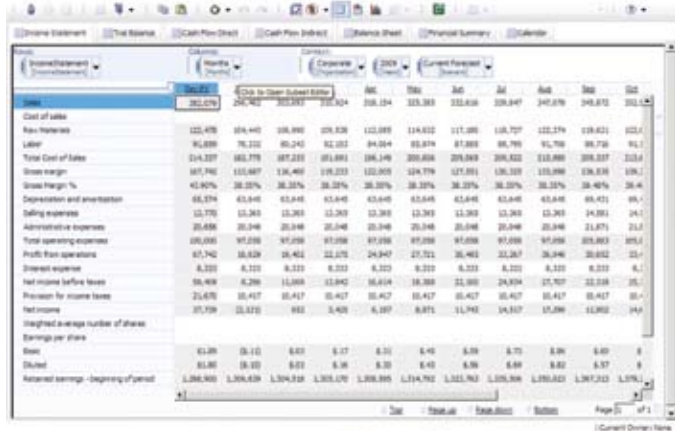
Once a plan is saved, it becomes a **Work In Progress** and remains accessible for further editing. When an item is submitted, the plan is **Locked** and no more changes can be made. The locked state indicates that the plan is ready for review. A reviewer can review the plan in any state, but can only reject a locked plan item. When a locked plan is rejected, it reverts to a work in progress, making it editable once again for plan owners. The following screen capture depicts workflow for a Corporate Financial contributor.





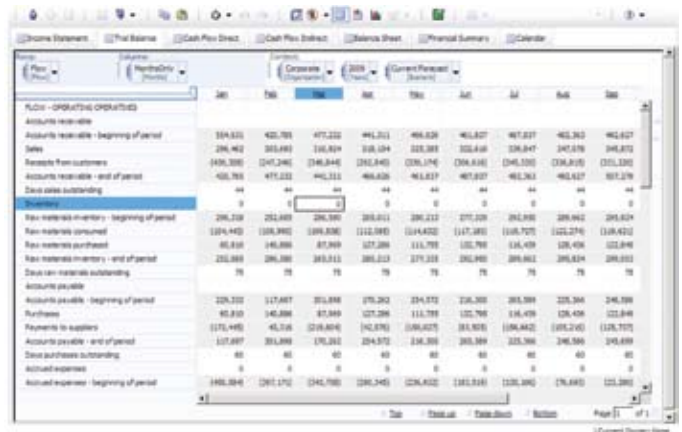
### Income Statement

The Income Statement is fed by bottom-up plans developed in other Blueprints, such as the *Expense Planning and Control Blueprint*. A financial analyst can compare these bottom-up plans to actual data, the current forecast and the previous forecast. The analyst can easily transfer data from the current forecast to the previous forecast and create a new current forecast. The first view of the income statement shows the current monthly forecast for 2009. The second view shows a chart and bar graph. You can create any number of views and graphs “on the fly.”



### Trial Balance

The Trial Balance tab links the Income Statement to the Balance Sheet and the Cash Flow (Direct Method). Financial analysts can modify targets such as ‘Days sales outstanding’ by changing the metric directly. Changes made here are automatically reflected in the Balance Sheet and Cash Flow (Direct and Indirect) tabs and you can immediately see the changed financial position of your company.







### Financial Summary

On the Financial Summary tab, you can see the effect of your changes on key ratios.

	2010	2011	2012	2013	Total Year
Revenue for Sales	0.00	0.00	0.00	0.00	0.00
Basic	0.00	1.00	1.00	1.00	4.00
Diluted	0.00	1.00	1.00	1.00	4.00
Revenue Growth	18.00%	1.00%	0.00%	0.00%	0.00%
Gross Margin	346,330	274,520	280,000	620,200	1,546,000
Gross Margin %	38.39%	38.39%	38.70%	38.46%	38.70%
Net Income Growth	463,11%	1275.82%	92.42%	18.89%	64.23%
Current Ratio	2.42	2.34	2.34	2.33	2.33
Quick Ratio	2.28	2.18	2.18	2.18	2.18
Net Working Capital Ratio	0.28	0.28	0.32	0.34	0.34
Return on Assets	22%	20%	20%	20%	20%
Return on Equity	28%	27%	2.28%	1.23%	2.24%
Profit Margin	21%	2.76%	4.22%	4.88%	2.02%
Assets Turnover Ratio	0.12	0.12	0.12	0.12	0.12
Accounts Receivable	0	0	0	0	0
Receivables Turnover Ratio	2.00	2.00	2.04	2.07	2.04
Days Sales Outstanding	45	45	44	44	44
Inventory	0	0	0	0	0
Inventory Turnover Ratio	0.00	0.00	0.00	0.00	0.00
Days Inventory Outstanding	70	70	70	70	70
Debt to Equity Ratio	0.00	0.00	0.00	0.00	0.00
Interest Coverage Ratio	2.32	2.32	4.00	4.28	2.90
Net Income Paid	0.00	0.00	0.00	0.00	0.00

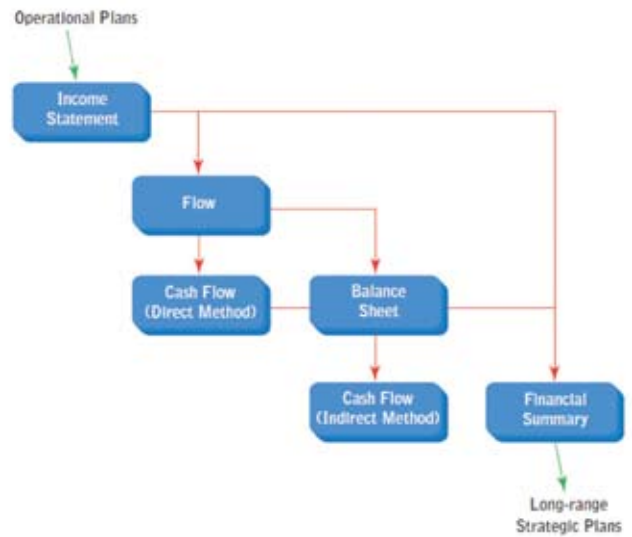
### Calendar

This tab may be hidden from the user. Its primary function is to drive the calculations for certain assumptions. For example, “Days Sales Outstanding” would use these to determine monthly receivable ending balances.

	2010	2011	2012	Total Year
Jan	31	31	31	93
Feb	28	28	28	84
Mar	31	31	31	93
Apr	30	30	30	90
May	31	31	31	93
Jun	30	30	30	90
Jul	31	31	31	93
Aug	31	31	31	93
Sep	30	30	30	90
Oct	31	31	31	93
Nov	30	30	30	90
Dec	31	31	31	93
Total Year	365	365	365	1095

### Flowchart

The following flowchart illustrates how this *Blueprint* fits into the company planning process.



## About the IBM Cognos Innovation Center for Performance Management

The IBM Cognos Innovation Center was established in North America and Europe to advance the understanding of proven planning and performance management techniques, technologies, and practices. The Innovation Center is dedicated to transforming routine performance management practices into “next practices” that help companies

- cut costs
- streamline processes
- boost productivity
- enable rapid response to opportunity
- increase management visibility

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

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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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