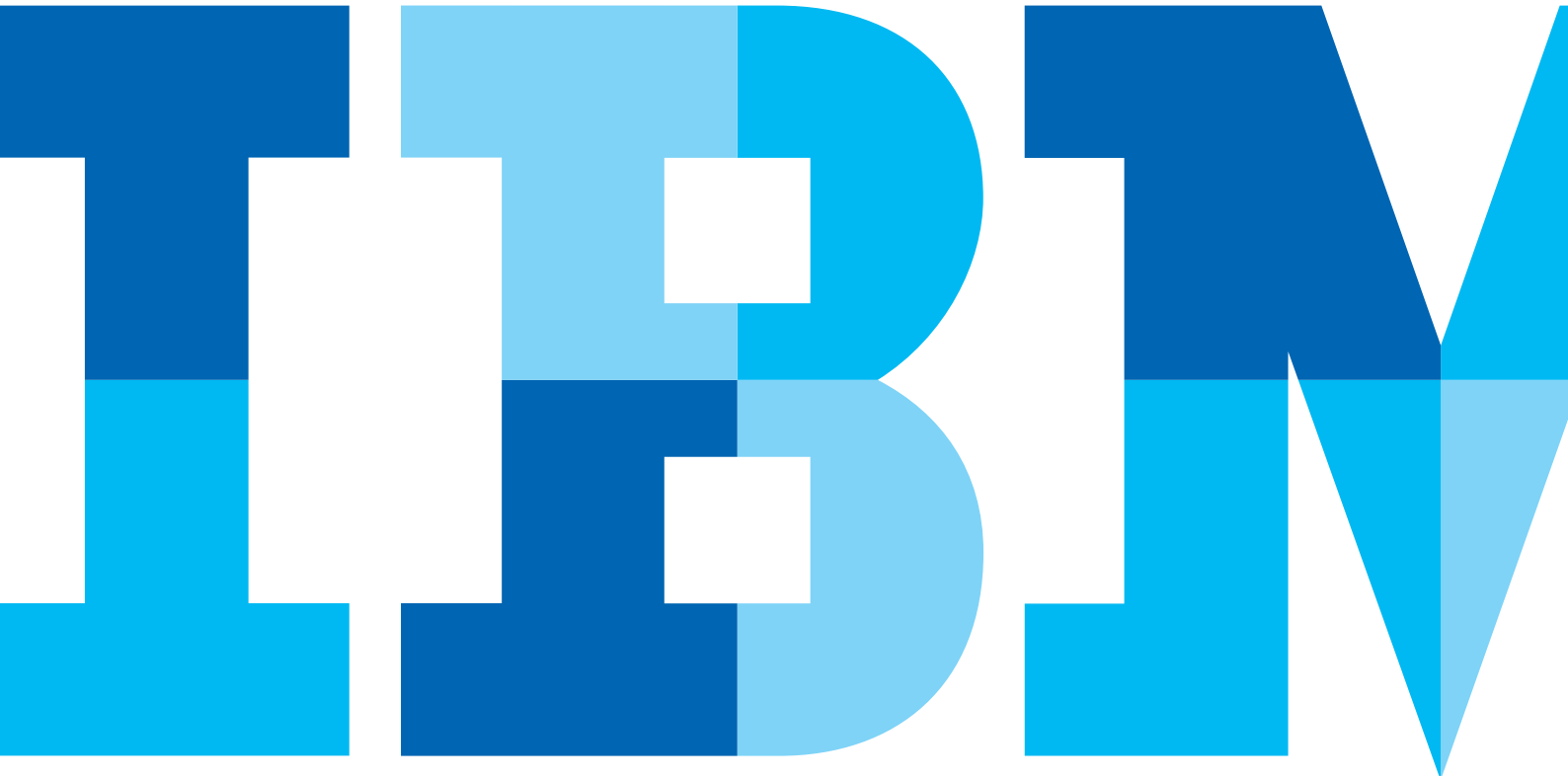


# Strategic Finance Performance Blueprint Powered by IBM Cognos Express



## Overview

The goals of strategic planning include maximizing shareholder value, achieving growth and meeting other financial objectives defined by the board of directors. Strategic planning is usually the start- and end-point for the planning process in an organization; as such, defining and articulating such goals requires a logical and consistent approach. *The IBM Cognos® Strategic Finance Performance Blueprint Powered by IBM Cognos Express* provides a complete performance management framework that enables users to identify and measure organizational objectives clearly.

While strategic planning is typically performed by a small group or even an individual, outcomes have major significance to the entire organization and its stakeholders. Performance management systems help express strategic goals and provide a measurement process, so that the goals can be tracked to ensure that long-term objectives will be met. This application brief demonstrates how this *Blueprint*, a web-based process for defining and analyzing long-term objectives, is set up and how it works.

The model and processes described in this document are generic for most North American small and midsize companies, but can be configured to support alternative model requirements and to accommodate planning in any country.

## Blueprint objectives

Determining how best to develop a strategic plan requires a reasonable standard approach. Typically, this process is performed in the “back office” using spreadsheets that can change from year to year. The major objective of this *Blueprint* is to allow users to evaluate how successful they have been in meeting goals over a number of years with a reliable, consistent modeling tool. *The Strategic Finance Blueprint Powered by IBM Cognos Express* meets this objective and:

- Evaluates the impact of multiple strategies
- Allows for comparison and analysis of what-if growth scenarios
- Provides a means of evaluating internal or external growth opportunities
- Provides for merger and acquisition planning
- Provides an assessment of the current portfolio—allowing for analysis and impact of divestitures
- Includes tax and credit rating impacts

It also contains a full set of consolidated financial statements with distinct views for base growth, acquisitions and divestitures.

This *Blueprint* provides a methodology for long-range strategic planning over a ten-year period. It is assumed that this type of application will typically be used by a small group of strategic planners, among whom company-wide decisions are made. Other contributors may include legal entities or divisions. The key premise is that cash is generated (or used) by the core operations, and strategic decisions regarding investment and divestiture strategies are largely driven by the cash position of the base company.

This *Blueprint* contains three tabs for merger and acquisition planning. These tabs, along with the Cash Management and Divestiture tabs, represent the key areas for the corporate strategic planning decision maker. In addition to providing a full set of financials for these acquisition scenarios, the *Blueprint* provides additional what-if scenarios for comparison. The resulting process will give the planners insight into various key economic indicators and shareholder results.

### Model design overview

This flowchart represents a high level overview of the *Blueprint* model design.



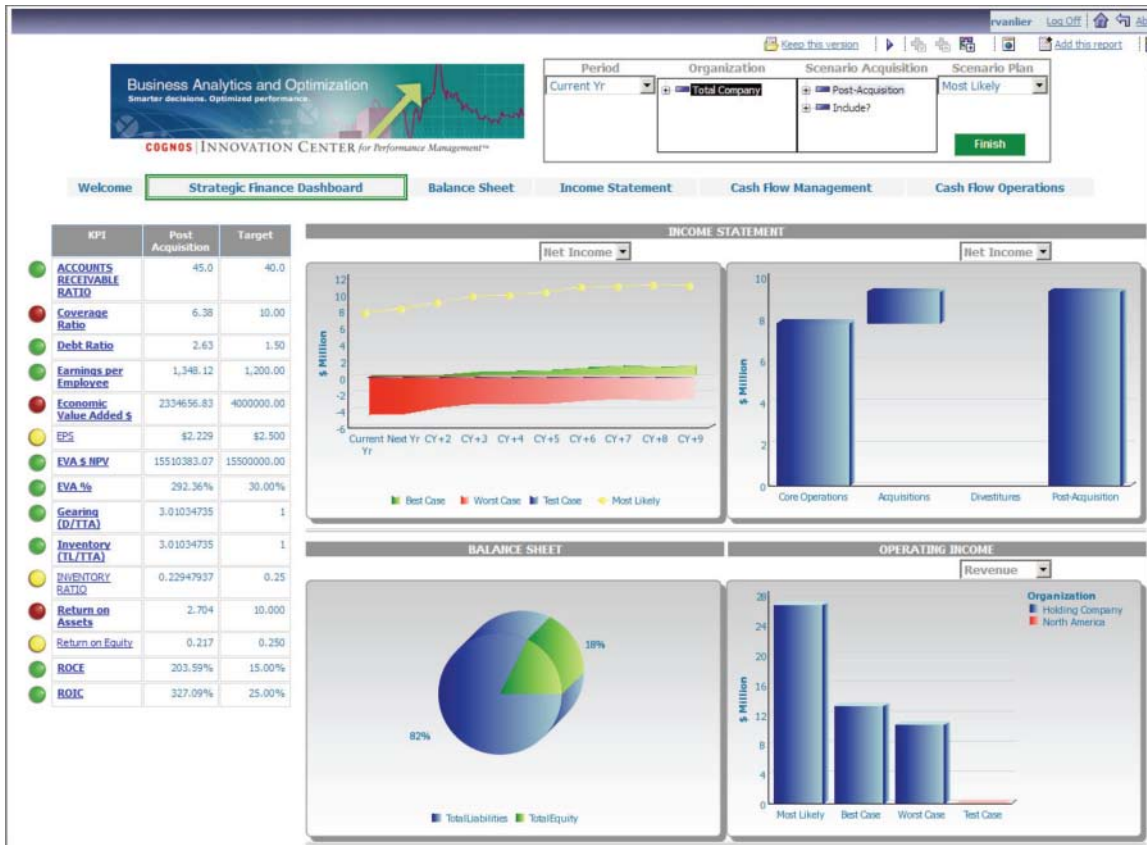
## Representative workflow

The following sections of this application guide describe how a strategic planner might use this planning tool.

### Strategic Finance Portal

Logging into the Strategic Finance Portal offers users a number of key metrics with indicators that show performance versus target. Users can select from various what-if scenarios for comparison.

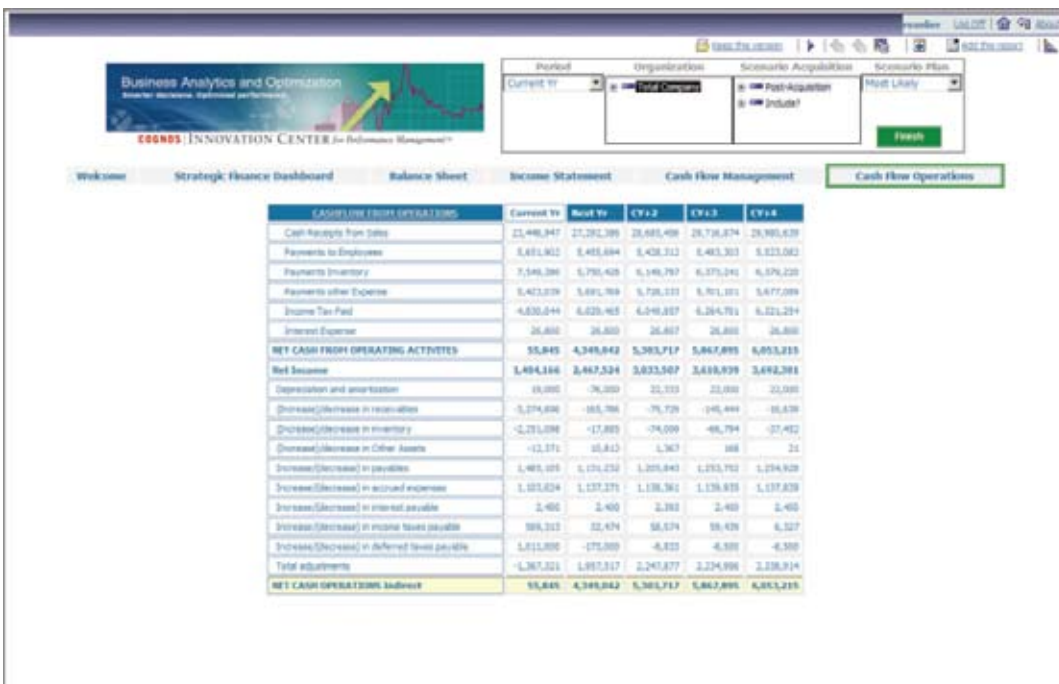
To the right of the metrics, we can see a graph showing the Income Statement outcomes for various scenarios: best case, most likely, and worst case. This graphic is invaluable when making the type of what-if decisions required in most organizations. The top-right graphic lets the user view the incremental impact of Acquisitions and Divestitures for the Income Statement. This is demonstrated in the form of a waterfall chart.



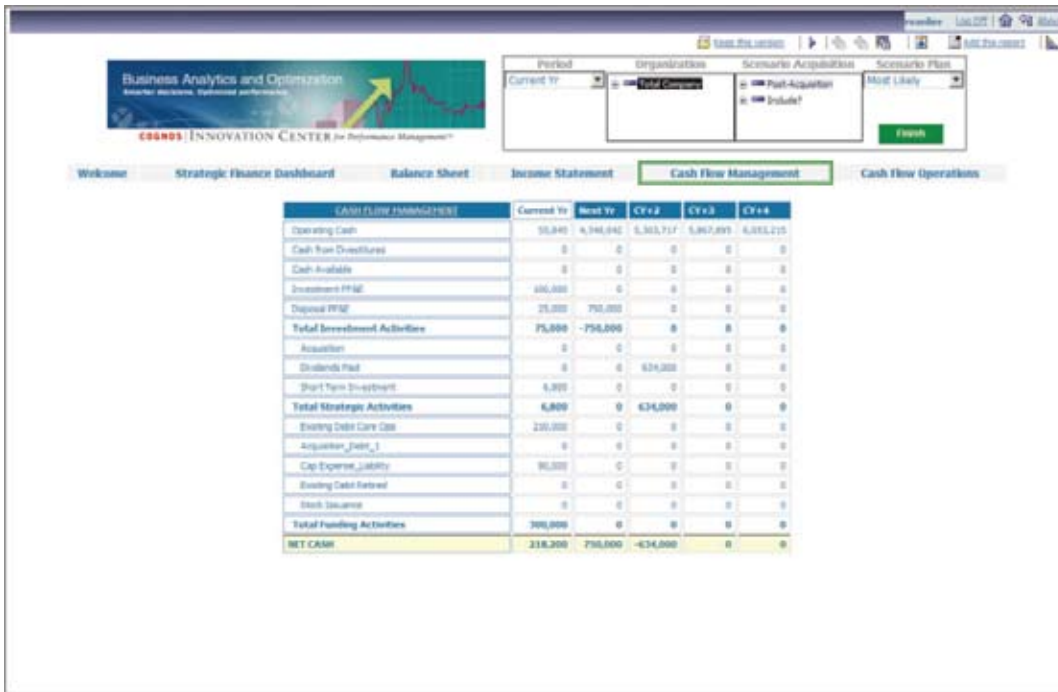
Income Statement



Balance Sheet



Cash Flow from Operations



Cash Flow Management

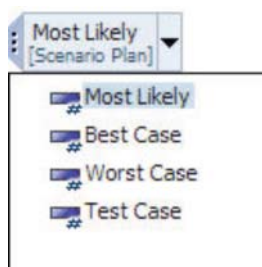


## Key Lists

Based on the above analysis, you can use the *Blueprint* to update the strategic plan in the Cognos Express interface. It is important to note the following key lists in this *Blueprint*.

### Scenario – Plan

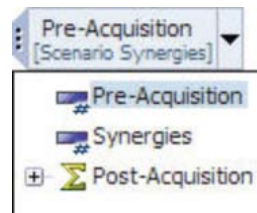
This list is used for what-if comparisons. You can customize this list to define your own scenarios or versions.



### Scenario – Synergies

The data for pre-acquisition and synergies is input, while post-acquisition is calculated. This list is used in the M&A Synergies tab. Costs and expenses are input as a negative number to generate positive synergies in the form of cost savings, like a reduction in rents or maintenance.

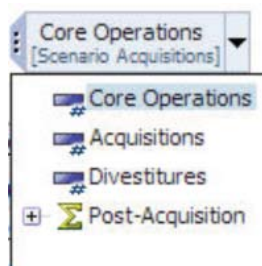
$$\text{Post Acquisition} = \text{Pre-Acquisition} + \text{Synergies}$$



### Scenario – Acquisition

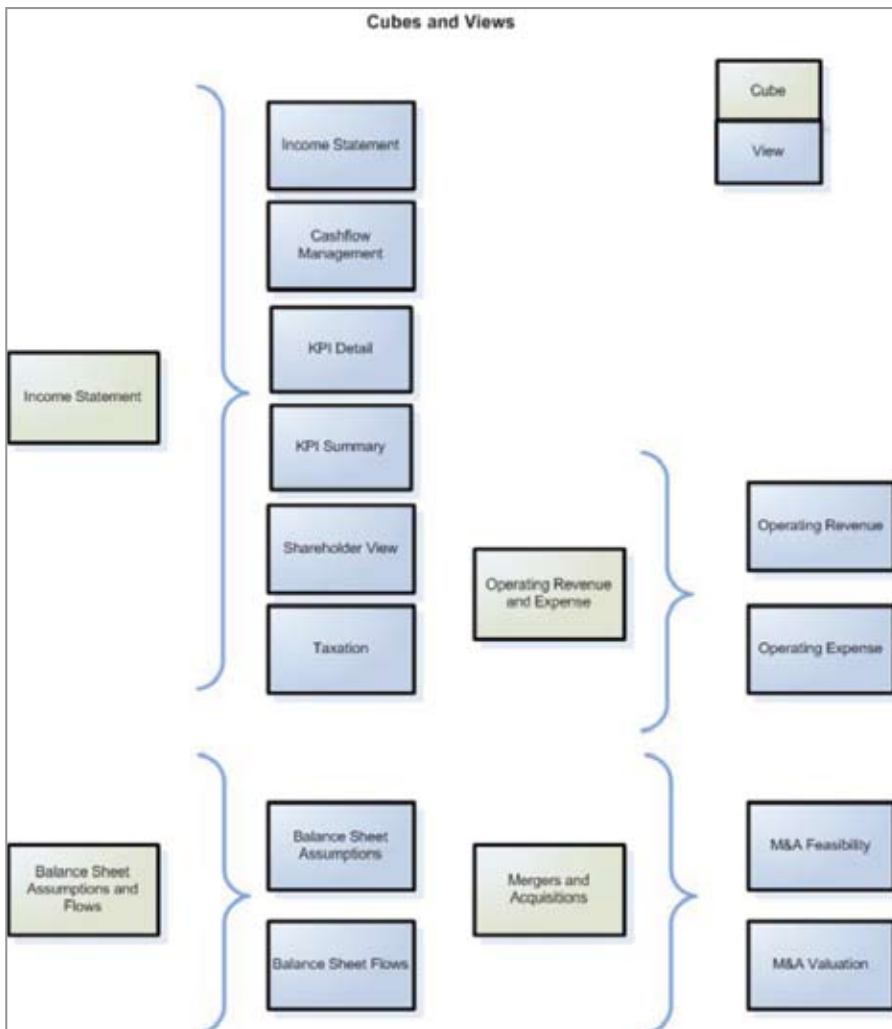
This list is used in most tabs including the key Financial Statements and other tabs. Core Operations represents the base organization. Note the calculation below.

$$\text{Post Acquisition} = \text{Core Operations} + \text{Acquisitions} - \text{Divestitures}$$



## Cubes and views

Many of the views shown in component for planning consist of a single cube as shown here.







**KPI Detail and KPI Summary**

These tabs, like the Shareholder View above, do not require any input. The key metrics available are displayed in two views: summary and detail. The detail view contains the calculated KPIs and the input elements used to generate them. The Summary view shows only the calculated KPIs.

Item	Actual	Budget	Variance
NET INCOME AFTER TAX	(2,068,819)	(465,743)	0
Income Tax Expense Current Year	2,355,818	465,743	0
NET OPERATING PROFIT AFTER TAX	(2,068,819)	(465,743)	0
Income Tax Expense Current Year	2,355,818	465,743	0
EBITDA	26,702,842	5,344,728	0
EPS	(81.734)	5.000	6.766
Book Value per Share	6.00	5.00	6.00
Revenue	26,702,842	5,344,728	0

Item	Actual	Budget	Variance
NET INCOME AFTER TAX	0	0	0
Income Tax Expense	1,362,897	363,962	2,000,000
EBIT	22,465,000	2,000,000	20,465,000
EBT	22,465,000	2,000,000	20,465,000
EBITDA	0	0	0
EBITDA Margin	0.00%	0.00%	0.00%
Return on Equity (ROE)	0.27%	0.00%	0.27%
Return on Assets (ROA)	0.27%	0.00%	0.27%
EPS	(81.734)	5.000	6.766
Book Value per Share	6.00	5.00	6.00
Revenue	26,702,842	5,344,728	0

**KPI Review**

Data in this tab is linked from the KPI views. Note, however, that this tab does require additional input. The user should enter target values, target minimums and industry averages for the defined KPIs. Based on the standards provided, target ratings are calculated for each KPI.

The ratings include:

- Excellent
- OK
- Bad

The calculation for the Target Rating is a conditional statement:

IF {Post-Acquisition} >= {Target Value} THEN “Excellent”  
 IF {Post-Acquisition} >= {Target Min} THEN “OK”  
 IF {Post-Acquisition} < {Target Min} THEN “Bad”  
 The calculation for the Industry Rating is:  
 IF {Post-Acquisition} >= {Industry Avg} THEN “Excellent”  
 IF {Post-Acquisition} < {Industry Avg} AND {Post-Acquisition} > {Target Min} THEN “OK”  
 IF {Post-Acquisition} < {Industry Avg} THEN “Bad”

Item	Actual	Budget	Variance	Target	Industry Avg	Target Rating	Industry Rating
NET INCOME AFTER TAX	0	0	0	0	0		
Income Tax Expense	1,362,897	363,962	2,000,000	1,500,000	1,400,000	Bad	1,500,000
EBIT	22,465,000	2,000,000	20,465,000	20,000,000	20,000,000	Excellent	20,000,000
EBT	22,465,000	2,000,000	20,465,000	20,000,000	20,000,000	Excellent	20,000,000
EBITDA	0	0	0	0	0		
EBITDA Margin	0.00%	0.00%	0.00%	0.00%	0.00%	Bad	0.00%
Return on Equity (ROE)	0.27%	0.00%	0.27%	0.20%	0.20%	OK	0.20%
Return on Assets (ROA)	0.27%	0.00%	0.27%	0.20%	0.20%	Excellent	0.20%
EPS	(81.734)	5.000	6.766	5.000	5.000	OK	5.000
Book Value per Share	6.00	5.00	6.00	5.00	5.00	Excellent	5.00
Revenue	26,702,842	5,344,728	0	20,000,000	20,000,000	Excellent	20,000,000









**Debt**

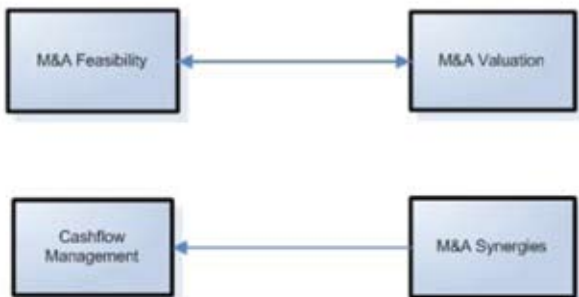
You can use this tab to plan debt for core operations. Debt planning for acquisitions is created in the Cashflow Management tab. For example, when you input the amount and type of debt to fund an acquisition, this debt is linked to the Debt cube and interest is calculated. You must also put in a maximum or upper limit of borrowing for each debt type. If this amount is exceeded, a warning appears.

Debt Type	Amount	Interest Rate	Interest Expense
Term Loan	100,000	5.00%	5,000
Bank Line of Credit	50,000	4.00%	2,000
Commercial Paper	20,000	3.00%	600
Accounts Payable	10,000	2.00%	200
Accounts Receivable	5,000	1.00%	50
Other Debt	15,000	3.50%	525
<b>Total Debt</b>	<b>200,000</b>		<b>8,325</b>

**Mergers and Acquisition Planning**

M&A planning is an important part of this Blueprint. Because most companies plan for growth and profitability, acquisition planning is a critical component of the strategic planning process. The next section of this *Blueprint* outlines its M&A component as shown in the flowchart.

**Mergers & Acquisition Overview**



The M&A Feasibility tab begins the initial M&A process. Required is some basic information about the purchase price, shares currently owned and percentage of ownership desired. The user must select a valuation method from the drop-down and most importantly, whether to include the acquisition from the drop-down “Include.” Only by selecting “Yes” will users see the effect of this acquisition on all of the financials and metrics.

By indicating what price you are willing to pay in order to make the acquisition, you can immediately see the resulting Premium Offer %.

This tab allows the user to plan for up to three acquisition evaluations per year/scenario. Of course, this list can be expanded or modified to accommodate user needs. You may also want to input the acquisition with varying offer prices, and valuations using the Scenarios dimension. Additionally, the “Fair Market Value” of existing Assets and Liabilities must be entered to calculate goodwill.

Item	Scenario 1	Scenario 2	Scenario 3
Purchase Price	10,000,000	10,000,000	10,000,000
Market Value of Equity	8,000,000	8,000,000	8,000,000
Goodwill	2,000,000	2,000,000	2,000,000
Acquisition Premium	25.00%	25.00%	25.00%
Market Value of Equity (Total)	10,000,000	10,000,000	10,000,000





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