

Strategic Investment Management Blueprint



Introduction

Increasing volatility in the global economy and capital markets is straining CFOs' ability to fund and manage profit and growth programs in line with strategic objectives. In the landmark IBM Global CFO Study 2008 (see sidebar), chief financial officers (CFOs) specifically cite a need to improve the way they

- *Provide inputs for growth strategies*
- *Measure/monitor business performance*
- *Sustain continuous process/business improvements*

Recent business headlines bear witness to turbulent times:

- *Lehman Brothers' bankruptcy filing. Bank of America's anticipated acquisition of Merrill Lynch. AIG's current woes. Such news underscores severe disruptions in the financial sector. Moreover, given the weak outlook for the global economy, earnings will likely disappoint further and the environment will remain challenging for global equity markets in the medium term (UBS, 9/25/08).*
- *"\$700 Billion Bailout Is Only One Step on a Long Road to Stabilizing and Restoring the Credit Markets" (New York Times, 9/29/08).*
- *Dow Jones and NASDAQ markets have dropped approximately 20 percent in the past year. Stocks are predicted to continue dropping until credit markets stabilize (UBS, 9/29/08).*
- *According to the Commerce Department, U.S. Consumer spending was flat in August, the third consecutive month of weak consumption (Wall Street Journal, 9/29/08).*
- *The Unemployment Rate increased to 6.1 percent in August—the highest Unemployment Rate since September 2003 (U.S. Bureau of Labor, 9/5/08).*

Balancing Risk and Performance with an Integrated Finance Organization

The IBM Global CFO Study 2008, developed by IBM Global Business Services in cooperation with the Wharton School and the Economic Intelligence Unit, tells how finance organizations can balance the competing priorities of growth, risk and performance insight, while adding significant value to the business.

The study asked 34 questions of more than 1,200 CFOs and senior-level finance professionals in five major sectors and 79 countries from the spectrum of enterprise revenue sizes. The result is a roadmap for how a CFO, as truth-owner, can help shape operational decisions and strategic direction.

Companies traditionally approach business planning by defining business goals and objectives and strategic investments based on three- to five-year income statement projections. Strategic investments are used to define tactical operational plans and budgets for the next year. Often missing from this process:

- *A specific definition of the return on the strategic investments (in terms of improved revenue and/or reduced cost targets, along with timing and rationale)*
- *A specific definition of the funding requirements for strategic investments, along with timing and rationale*
- *A specific definition of the strategic programs and associated funding initiatives (in terms of labor expense, capital, skill/talent and organizational capabilities) to support strategic investments*
- *Scenario analysis to identify the implications on the balance sheet and cash-flow statement as a result of strategic programs and funding initiatives*
- *Organizational commitment to accomplish plans and budgets for the strategic programs and funding initiatives, based on an understanding of the available resources and internal capabilities*
- *Evaluation of actual results from executing strategic programs and funding initiatives*
- *Development of management action plans and decisions to take advantage of opportunities or to re-align strategic investments*

A root cause of these missing pieces is an inadequacy of tools and techniques. Many companies use a combination of financial enterprise resource planning (ERP) systems and spreadsheets to manage the complex decision process. Financial ERP systems readily capture individual ledger account transactions, while spreadsheets offer flexibility with great individual modeling capabilities. But neither is well equipped to manage enterprise-wide integrated business planning from a financial and operational perspective.

The process is lengthy and the numbers inaccurate, making timely, reliable integrated financial projections nearly unattainable. The planning cycle is so time- and resource-intensive that plans for the upcoming year are already out of date when operational plans and budgets are finalized. The result is that any evaluation of plan execution is irrelevant, which prevents the development of meaningful action plans and decisions.

The IBM Cognos® Strategic Investment Management Blueprint helps CFOs and their finance organizations more effectively perform the business-planning process and manage strategic investments in turbulent times.

Blueprint Benefits

The IBM Cognos Strategic Investment Management Blueprint is the ideal replacement for slow, unreliable spreadsheet-based processes in mid-term business planning. It enables users to evaluate their success in meeting goals over multiple years with reliable, consistent modeling tools.

The Blueprint also

- *Facilitates mid-term business planning over a five-year period*
- *Evaluates the impact of multiple strategic programs and their associated funding initiatives*
- *Facilitates comparison and analysis of what-if scenarios*
- *Enables merger and acquisition (M&A) planning and evaluation*
- *Includes tax and credit rating impacts*
- *Includes a full set of consolidated financial statements with distinct views for base growth, strategic programs, and acquisitions and divestitures*

The Blueprint integrates readily with the IBM Cognos performance management platform and features the following:

- *Integration of workflow and process management*
- *Integration into data sources, including in-place IBM Cognos 8 Planning models*
- *Integration of IBM Cognos 8 Business Intelligence reports, analysis and delivery formats*
- *Functionality for target setting, strategic program and funding initiative management, mergers/acquisitions/restructures, divestitures and asset management, cash flow management, key performance indicators (KPIs) and financial/non-financial planning*

Strategic Investment Management Process

The IBM Cognos Strategic Investment Management Blueprint automates and structures the business-planning and investment-management process (Figure 1).



Figure 1: Strategic investment management process

Assessment and Vision

The process typically begins with an environmental assessment (Figure 2) and establishment of a strategic vision, both of which are usually associated with longer-term opportunities (three to five years) and linked to business goals and objectives. Business goals and objectives are associated with high-level financial forecasts of potential strategic programs worth pursuing. Typical strategic programs include

- *Business model transformation*
- *Business growth*
 - Revenue
 - Profitability
 - Assets
- *Mergers and acquisitions*
- *Capabilities improvement*
- *New product development*

	Next Yr	CY+2	CY+3	CY+4	CY+5	5 yr Total
GNP	2.00%	2.00%	3.00%	3.00%	4.00%	14.00%
Avg Labor Cost	3.00%	2.00%	1.00%	0.00%	1.00%	7.00%
Petroleum Cost	2.00%	(1.00)%	(2.00)%	(3.00)%	(4.00)%	(8.00)%

Figure 2: Environmental assessment of Gross National Product, labor and fuel prices over five years are used as drivers for the five-year financial forecasts

Current versus Target

The process works this way:

- Start by assessing current financial position, operational metrics and capabilities
- Define tangible financial targets (in this Blueprint, executives envision the company doubling revenue and profit in the next five years)
- Evaluate the gap between current operations and desired targets by forecasting the financial results of the core operations over the planning horizon (Figure 3)
- Assess potential strategic programs and link to overall business goals and objectives
- Define funding initiatives and align with the strategic programs

The performance reports (Figure 3) illustrate the gap between revenue and operating income projections from core operations versus target over a five-year period. The reports are dynamic and presented in a dashboard format. The report enables you to analyze the impact of various assumptions from the environmental assessment and look at multiple scenarios, which are combinations of financial forecasts.

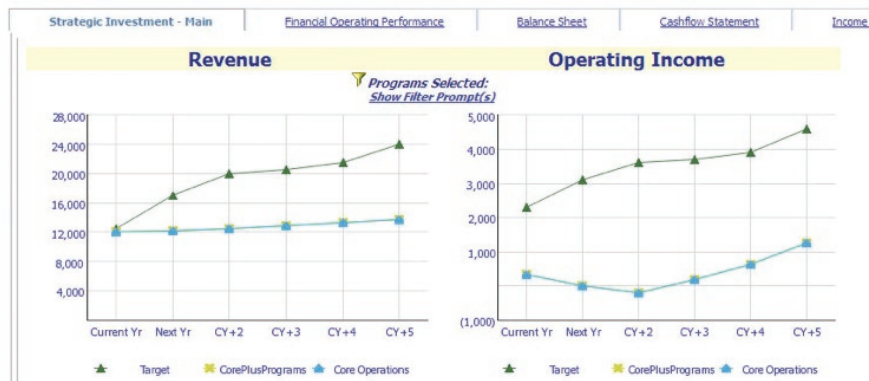


Figure 3: Performance gap between projected core operations and targets

Funding initiatives are projects that generate improvements to revenue or reductions to costs, or both, and enable strategic programs to receive internal funding to be successful. The definition of funding initiatives includes

- An estimate of improvements to revenue and reduction of costs and the schedule of when and why this should occur
- An estimate of resources (labor and capital) needed to complete the project

Each strategic program may have one or more funding initiative.

Programs and Funding Initiatives

The process starts with an evaluation of programs and funding initiatives individually and collectively by forecasting financial results expressed as integrated financial statements (Figures 4-8).

Revenue, profitability, cash flow and balance-sheet projections are considered, as are key financial and operational metrics. Through a series of forecasting iterations, results of programs and funding initiatives and the associated use of company resources often shift to meet business plans, goals and objectives. Throughout the process, plans for programs and funding initiatives must be translated continually into a set of financial numbers.

As definitions for programs and funding initiatives firm up, companies can develop and plan for internal or external funding assumptions. Companies should also re-enforce management responsibilities and align the organization accordingly.

For the purpose of this example, assume that the company plans to pursue the following programs and funding initiatives:

- 1. The program is the acquisition of a compatible company with annual sales of \$4 billion. The purchase price for the business is \$6 billion. The funding initiative for the program is to create shared services centers and process improvements (for Finance, Human Resources and Information Technology) during year two.*
- 2. The next program is a market expansion into Asia Pacific and South America to increase revenue by 10% per year. The funding initiative is to establish the infrastructure for the new markets.*
- 3. The final program is the migration of manufacturing facilities to lower cost producers, thus improving gross margins as follows:*

Year	Gross Margin
1	1%
2	1%
3	2%
4	2%
5	1%

The funding initiative is to contract for the lower-cost producers and migrate the manufacturing work and facilities to the new producers.

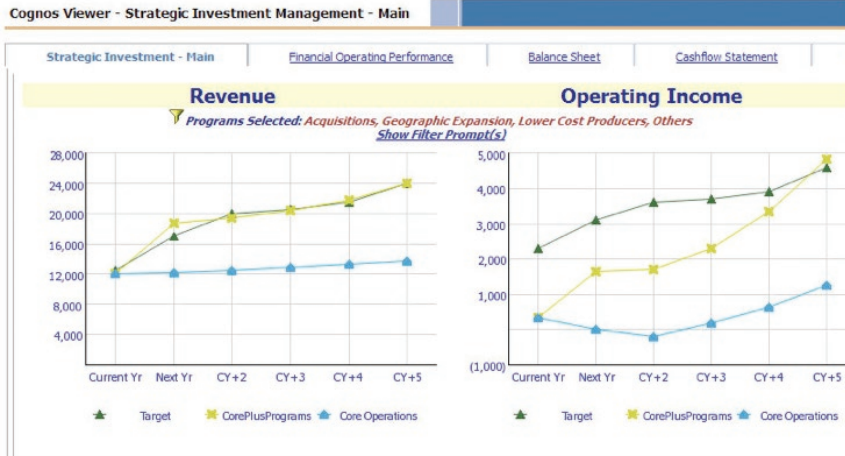


Figure 4: The forecasted income statement shows projections of core operations, acquisitions and strategic programs versus target

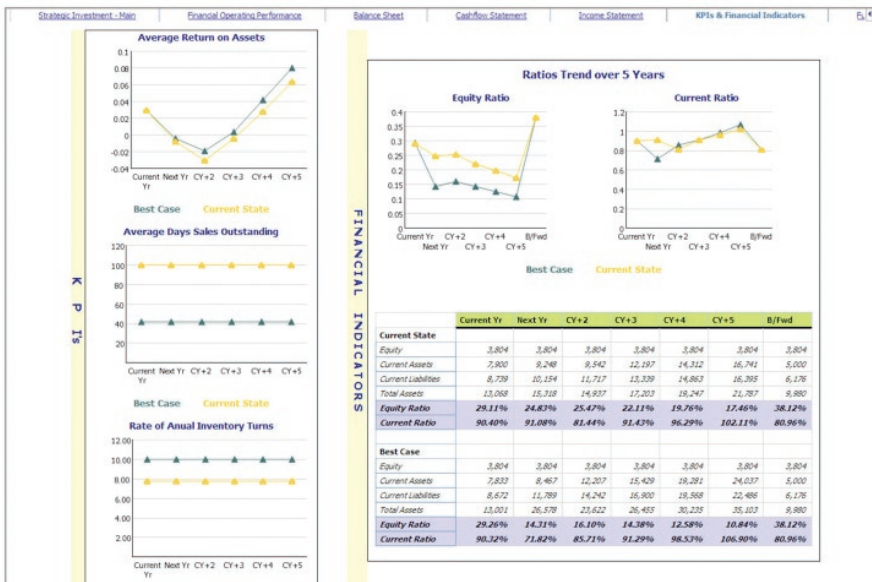


Figure 5: Key performance indicators forecasted for five years

Best Case	Balance Forward	Current Year	Next Year	Year + 2	Year + 3	Year + 4	Year + 5
CURRENT ASSETS							
Cash		4,196	4,196	6,425	9,065	12,228	15,986
Receivables	4,000	4,381	2,150	2,231	2,354	2,502	2,763
Inventories	1,000	840	1,096	1,169	1,207	1,223	1,246
Other Current Assets							
TOTAL CURRENT ASSETS	5,000	6,417	7,442	9,824	12,626	15,953	19,995
NON CURRENT ASSETS							
Property, Plant & Equipment-cost	5,000	5,090	5,690	5,840	5,840	5,840	5,840
Property, Plant & Equipment-cost	5,000	5,090	5,690	5,840	5,840	5,840	5,840
Accumulated depreciation	20	16	118	356	595	750	772
Property, plant and equipment - net	4,980	5,074	5,572	5,484	5,245	5,090	5,068
Investment other Companies			6,020	6,020	6,020	6,020	6,020
Goodwill							
Other Non Current Financial Assets							
Other Non Current Assets							
TOTAL NON CURRENT ASSETS	4,980	5,074	11,592	11,504	11,265	11,110	11,088
TOTAL ASSETS	9,980	11,491	19,034	21,328	23,891	27,063	31,083
CURRENT LIABILITIES							
Payables	3,800	4,929	6,635	8,346	10,083	11,806	13,589
Tax Liabilities	200	92	(11)	(51)	12	141	311
Other Current Liabilities	2,176	2,403	2,982	3,629	4,317	5,042	5,838
TOTAL CURRENT LIABILITIES	6,176	7,424	9,607	11,924	14,412	16,990	19,738
NON CURRENT LIABILITIES							
Long Term Debt		90	5,468	5,618	5,618	5,618	5,618
Other Non Current Liabilities		0	27	55	83	111	139
Liabilities of discontinued operations							
TOTAL NON CURRENT LIABILITIES		90	5,496	5,673	5,701	5,729	5,757
TOTAL LIABILITIES	6,176	7,515	15,102	17,598	20,114	22,719	25,495
NET ASSETS							
Equity	3,804	3,804	3,804	3,804	3,804	3,804	3,804
Additional Paid in Capital							
Retained Earnings		172	128	(74)	(26)	540	1,784
TOTAL EQUITY	3,804	3,976	3,932	3,730	3,778	4,344	5,588
TOTAL EQUITY AND LIABILITIES	9,980	11,491	19,034	21,328	23,891	27,063	31,083

Figure 6: Balance sheet forecasted for five years

Income Statement	Balance Sheet	Cashflow from Operations	Program Info	Program Timing	Program Costs	Cashflow Management
Corporate						
	Best Case					
	Current Yr	Next Yr	CY+2	CY+3	CY+4	CY+5
OPERATING ACTIVITIES						
Operating Cash	4,195.71M	1,241.96M	2,229.20M	2,640.34M	3,162.71M	3,758.52M
Cash from Divestitures	8.00M					
Cash Available	4,203.71M	1,241.96M	2,229.20M	2,640.34M	3,162.71M	3,758.52M
INVESTMENT ACTIVITIES						
Investment PP&E	100.00M	600.00M	150.00M			
Disposal PP&E	2.00M					
Total Investment Activities	98.00M	600.00M	150.00M			
STRATEGIC ACTIVITIES						
Acquisitions		6,020.00M				
Dividends Paid						
Short Term Investment						
Total Strategic Activities		6,020.00M				
FUNDING ACTIVITIES						
Existing Debt Core Ops						
New_Debt_Amt_1		4,778.04M				
Debt Category?		Acquisitions				
Debt_Rate_1		6% 30 Year Note				
New_Debt_Amt_2						
Debt Category?						
Debt_Rate_2						
Cap Expense_Liability	90.00M	600.00M	150.00M			
Existing Debt Retired						
Stock Issuance						
Total Funding Activities	90.00M	5,378.04M	150.00M			
NET CASH	4,195.71M	2,229.20M	2,640.34M	3,162.71M	3,758.52M	4,195.71M
Net Cash_Cum	4,195.71M	4,195.71M	6,424.91M	9,065.25M	12,227.96M	15,986.48M

Figure 7: Cash flow management forecasted for five years

As the definitions for the programs and funding initiatives firm up (Figure 8), a company

- *Can develop and plan internal and/or external funding assumptions.**
- *Should re-enforce management responsibilities and align the organization accordingly.*

* If internal funding is not adequate to support the strategic investment requirements, a company can identify and secure external funding. External funding is typically the issuance of capital securities or debt. The earlier a company can determine the need for external, the better the company's negotiation position.

Figure 8 also shows acquisition and program funding requirements and assumptions.

		Income Statement	Balance Sheet	Cashflow from Operations	Program Info	Program Timing	Program Costs	Cashflow Management
		Corporate						
		Expected Impact						
		Geographic Expansion		Lower Cost Producers	Others	Total Programs		
	PROGRAM METRICS	Yes		Yes				
Original	Total Cost Reduction			10,000.00M		10,000.00M		
	Total Headcount Reduction			348.00M		348.00M		
	Total Revenue Improvement	17,500.00M				17,500.00M		
	Total Program Expense	6,000.00M		4,000.00M		10,000.00M		
	Total Program Capital Expenditure	400.00M		500.00M		900.00M		
	PROGRAM METRICS	Yes		Yes				
Committed	Total Cost Reduction			10,020.97M		10,020.97M		
	Total Headcount Reduction			275.00M		275.00M		
	Total Revenue Improvement	17,000.00M				17,000.00M		
	Total Program Expense	5,971.48M		3,787.06M		9,758.54M		
	Total Program Capital Expenditure	350.00M		400.00M		750.00M		

Figure 8: Program funding requirements and assumptions

Commitment

The commitment process typically works this way:

- Organizations (i.e., divisions) are assigned specific funding initiatives to manage and execute (Figure 9).
- Each organization receives program and funding initiative plans and budgets—that is, target contributions to the corporate strategic investment portfolio.
- The organization evaluates planned approaches for completing the funding initiative and obtaining targets using performance standards and potential operational improvements (Figure 10).
- The organization analyzes and evaluates forecasted scenarios. Once the approach is understood and agreed upon, the organization develops detailed estimates and schedules for using needed resources and delivering benefits. It also defines assumptions for completing the funding initiative, given the constraints and risks associated with the effort. The organization must commit to what it can achieve based on its capabilities and report to the CFO for further consideration.
- Once programs and funding initiatives are committed to and approved, financial statements are distributed throughout the organization as a set of financial targets for the enterprise.

Funding Initiative Plan			
Funding Initiative Plan_Alloc		Net Impact Calculation	
Corporate Planning			
Initiative 1			
	Company Total	Home Products	Office Products
OVERVIEW			
Description		Shared Service	Shared Service
Program		Geographic Expansion	Geographic Expansion
Start Period		Q2_CY	Q2_CY
End Period		Q4_NY	Q4_NY
Duration	0 qtrs	8 qtrs	8 qtrs
Division Revenue Improvement	0	0	0
Division Cost Reduction	20,000,000	12,000,000	8,000,000
Division Initiative Expense	4,500,000	3,000,000	1,500,000
Division Headcount Reduction	350	200	150
Headcount Date Complete		Q2_CY	Q2_CY
Capital Expenditure	2,000,000	2,000,000	0
Capital Expenditure Period		Q3_CY	Q3_CY

Figure 9: Assignment of the funding initiative to the organizations responsible for executing the funding initiative



Figure 10: Commitment of the assigned organization to the funding initiative requested by Corporate.

Execute and Evaluate

In this process, corporate finance monitors actual results and compares them to the Committed to Plan and the Estimate to Complete (Figure 11). The calculated variances—Committed to Plan less (Actual to Date + Estimate to Complete)—provide the CFO and corporate financial organization with timely, reliable information about what can be achieved with the resources at hand. Results are summarized for all funding initiatives and re-forecasted to determine the impact on strategic investments and requirements to achieve the overall business plan. Typically, re-forecasted results are formatted in an executive dashboard to communicate performance to targets in simple terms and to provide the basis for action plans and decisions to close the gaps.

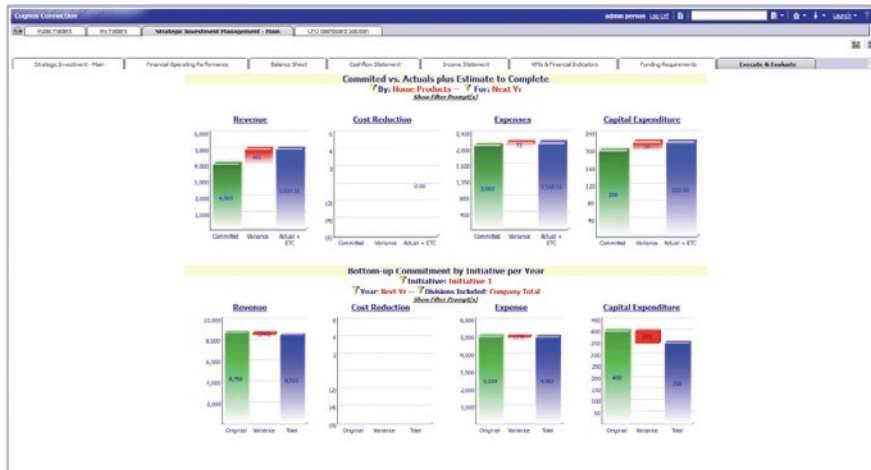


Figure 11: Evaluation of funding initiative commitments

Summary

The IBM Cognos Strategic Investment Management Blueprint, powered by IBM Cognos 8 Planning and Cognos 8 Business Intelligence, automates and structures the business planning and strategic investment-management processes. It maximizes the integration of financial statements, enhances data accuracy, facilitates business modeling, streamlines planning cycles, and strengthens links between strategic investments and operational plans.

By using the Blueprint, Finance can improve its ability to fund and manage profit and growth programs aligned with strategic objectives. Strategic objectives are easily defined and modeled, so financial targets can quickly be passed to operations and organizations assigned to execute funding initiatives. The solution gives operations more time to create plans and tactics to achieve corporate objectives; it also saves time and effort by offering complete workflow features that facilitate automatic rollup of submitted and approved plans. The planning cycle can be greatly compressed, which means that iterations and resource reallocation can occur quickly while maintaining the integrity of operational plans. The result is enhanced accountability and more timely, reliable forecasts to drive better business outcomes.

Value to You

CFO Challenges

- *Assessing current results versus five-year forecast*
 - *Where to start?*
- *Executive sponsorship/leadership*
 - *What changes are needed and who will lead?*
- *Defining vision and strategic programs*
 - *What is right for business and why?*
- *Understanding and acceptance of all organizations*
 - *Counter resistance at all levels*

Continues

IBM Cognos Performance Blueprints are preconfigured solution building blocks that help companies jump-start implementations. These pre-defined data, process and policy models encapsulate collective best-practice knowledge from the IBM Global Business Services (GBS) Financial Management and IBM Cognos Innovation Center for Performance Management. In the hands of GBS Financial Management consultants (see sidebar) and IBM Cognos certified implementation technical resources, Blueprints reduce project implementation schedules and improve project success rates.

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.

Value to You

IBM Global Business Services Financial Management Assistance / IBM Cognos

- *Benchmark comparisons, component business models and industry experience, and prepare five-year forecast of current strategic programs*
- *Market place awareness, best practices, executive relationship and coaching*
- *Business case development, implementation experience, capabilities assessment and communication skills*
- *Process Blueprint to follow, definition of roles and responsibilities, organizational change management, participation and commitment*
- *Multiple scenarios can be pre-run to analyze potential management decisions based on anticipated changes/risks. Trigger points can be defined to pre-determine/authorize management actions.*

About IBM Cognos BI and Performance Management

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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