

BUSINESS VALUE GUIDE
VOLUME 2

COGNOS PERFORMANCE BLUEPRINTS

RETAIL PERFORMANCE MANAGEMENT



MULTI-YEAR PLANNING & INTEGRATED FINANCIALS

COGNOS | INNOVATION
CENTER
for Performance Management™

Retail Performance Management— planning, reporting, and analysis—helps retailers link strategic and financial objectives with operational plans.

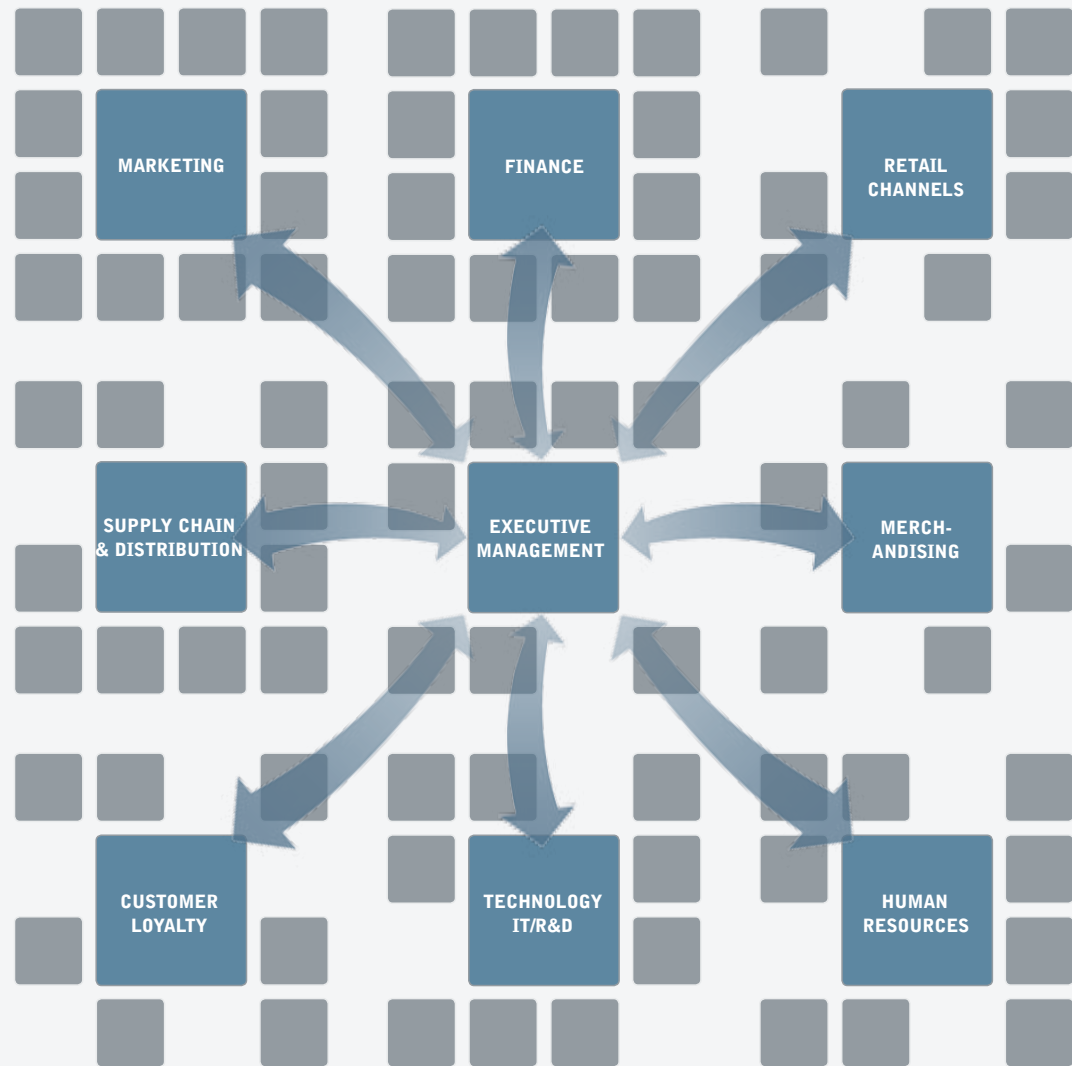
An integrated enterprise-wide planning process enables retailers to establish corporate growth and financial goals—and financial goals, and ensure consistent adherence to objectives across functional areas—stores, channels, merchandising, marketing, and distribution operations. Managing performance through efficient planning, measuring results, analyzing variances, and quickly re-forecasting to adjust to changing market conditions protects margins and strengthens market share.

This document looks at the best practices in retail enterprise planning, with focus on supporting strategic initiatives, integrating functional areas, encouraging high participation among stakeholders, and planning process efficiency through automation and workflow.

The process is characterized by the need:

- To synchronize operational plans with a single integrated set of financial goals for growth, financial, and strategic objectives
- To quickly model the financial impact of business initiatives and marketplace changes for optimal investment decisions.
- To drive consensus among process owners responsible for performance
- To simplify and streamline plan creation by providing standards, profiles, and easy-to-use templates and processes

THE COGNOS SOLUTION MAP



Enterprise planning and forecasting drives formulation of long-range and operational plans that support financial and strategic objectives.

Measuring and managing performance through metrics, plans, forecasts, and detailed actual results is a challenge because disparate legacy solutions and IT processes provide limited visibility into the business.

Consequently, retailers seek integrated top-down planning, reporting, and analysis between corporate finance, operations, and merchandising to ensure all departments work towards common strategic goals and numbers. This provides reconciled plan visibility to many different planning groups, eliminating plan discrepancies and organizational silos.

SUPPORTING PROCESSES

- Growth and Financial Objectives
- Strategic Initiatives
- Major Capital Plans

OPERATIONS PLANNING

TACTICAL PLANNING AND EXECUTION

SUPPORTED PROCESSES

- Executive Scorecarding
- Management Reporting
- Variance Analysis, Drill-downs
- Competitive Benchmarking
- Corporate Targets
- Financial Plan & Budgets
- Rolling Forecasts

OUTPUT

STORE
P&Ls

DEMAND
FORECAST

MULTI-
CHANNEL
PLAN

DEPT-LEVEL
MERCHANDIS-
ING PLAN

ADVERTISING/
TRADE
SPEND PLAN

DC PLANS

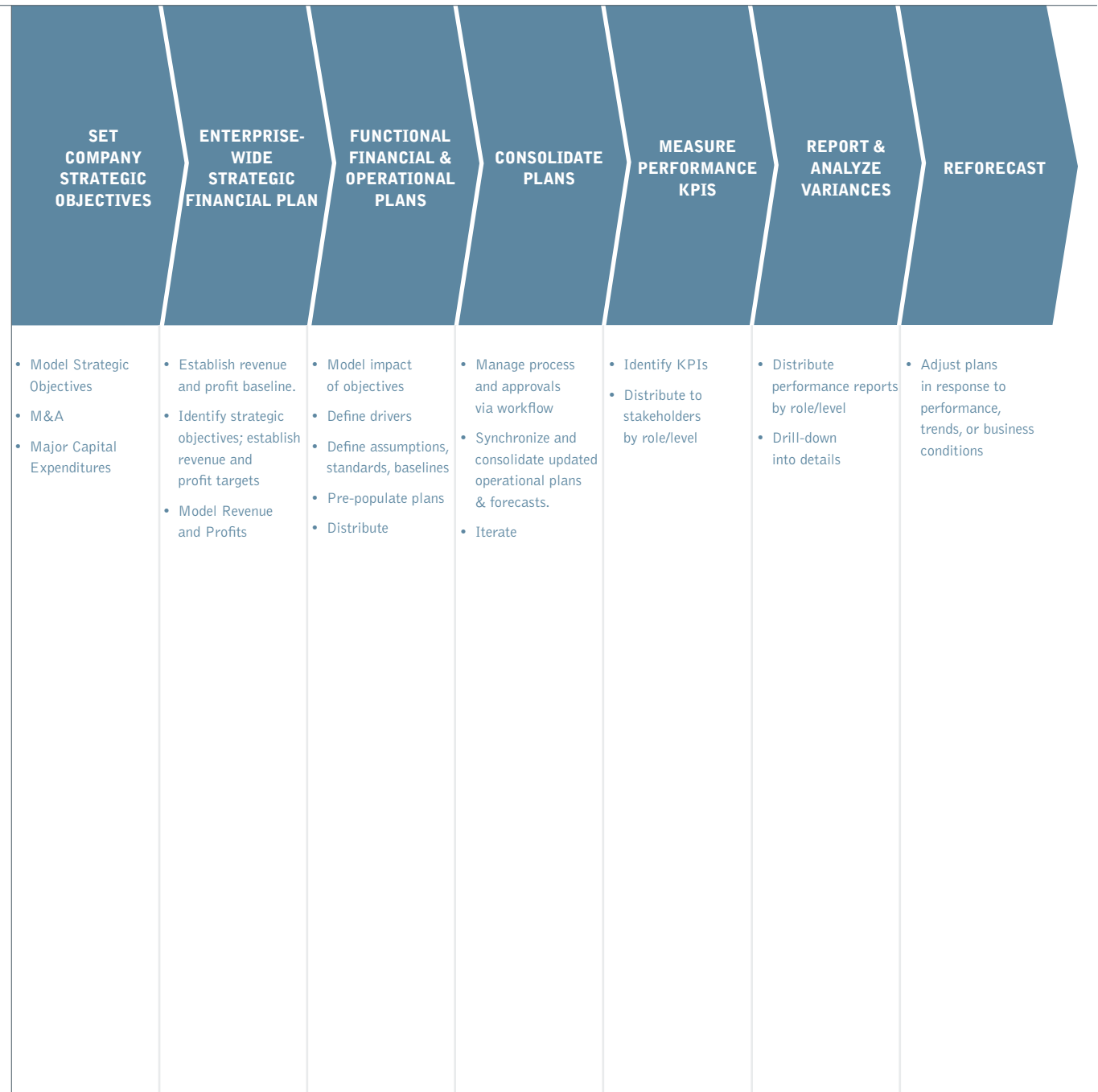
After strategic objectives are modeled and expressed as financial targets or goals, functional units establish financial and operational plans, budgets, and forecasts.

Retail chains map out strategic growth objectives. As objectives are finalized, supporting initiatives are developed and their financial implications identified. Revenue, margin, and profitability targets are set, investment decisions are determined, and company financial statements are produced. Top-down planning includes definition of operational business drivers, standards, profiles, and assumptions. Using corporate financial statements, initiatives, and assumptions, financial and operational plans are pre-populated for functional review, revision, and approval.

Plans can be deployed at any level: departments, distribution centers, divisions, regions, districts, or stores. This increases participation and buy-in, and provides the visibility and accountability needed to meet objectives. Melding top-down and bottom-up processes yields company-wide consistency supported by appropriate detail.

Using automated, managed workflow, individual operational plans are reviewed, approved, and linked with integrated financial statements to validate targets. Changes in operational plans and objectives are immediately reflected in integrated financials to increase likelihood of reaching strategic objectives.

Once plans are agreed upon, the entire organization can monitor key metrics, analyze variances, and adjust operational performance as needed to respond to changing market conditions. Operational decisions are tied to corporate objectives as business drivers are easily translated to a forecast. Strategic plans are adjusted as business climate changes.



A typical workflow that supports retail enterprise planning, reporting, and analysis.

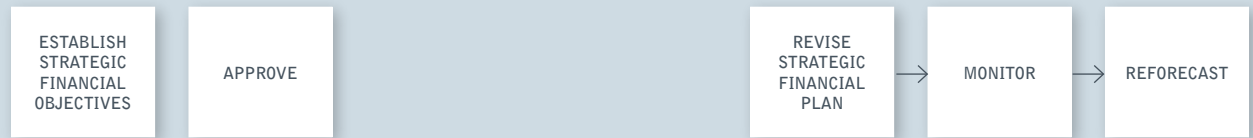
Most retailers create annual strategic objectives and supporting initiatives—such as building departmental sales, launching a remodel program, or achieving a stated gross margin/COGS.

Objectives and multiple scenarios are modeled and an integrated financial statement is generated. Revenue, gross margin, controllable expenses, and operating profit and return on net assets are taken into account, as well as key financial metrics like comp sales, sales by square foot, labor cost as a percentage of sales, and non-financial metrics like customer loyalty and vendor performance. Completed models are reviewed, modified, approved, and passed down to the functional executives as a set of targets.

Functional executives create financial and operations plans to support corporate objectives. Plans are typically driver-based and tied to strategic initiatives. Operations managers review and revise plans for their particular area—like a group of stores, merchandise category, or distribution center. Several iterations are often required as company resources and plans shift to meet strategic objectives and gain required approvals.

Some strategic goals and objectives may need to be modified, as a clearer picture is gained from operations of what is achievable, given on-hand resources and current market conditions. Continuous integration between corporate, functional areas, and operational plans ensures alignment, consensus, and commitment to reach corporate objectives.

EXECUTIVE MANAGEMENT



CORPORATE FINANCE



FUNCTIONAL EXECUTIVES

- Store Operations
- Multi-Channel
- Marketing
- Merchandising
- DCs, Supply Chain



OPERATIONS MANAGERS

- District/Store Managers
- Channel Mgmt
- Advertising
- Merchants/Buyers
- DC/Warehouse Mgrs



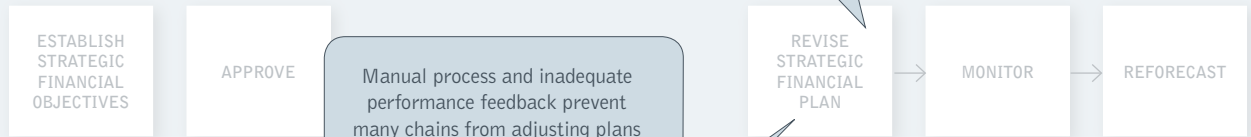
Most companies manage the process with spreadsheets, leading to unconnected plans, errors, and lengthy cycles to develop, consolidate, and approve plans and budgets.

Financial systems are good at capturing individual account transactions, spreadsheets offer flexibility with great individual modeling capabilities, and point systems facilitate tactical planning and execution. However, none of these systems is well-equipped to manage an integrated, enterprise-wide planning, reporting, and analysis process.

In fact, due to the dynamic nature of the industry and painful nature of a disconnected process, many retail finance and planning professionals spend most of their time trying to reconcile disparate plans with corporate targets. The planning cycle often takes so long and involves so much manual consolidation and coordination that plans for the upcoming year are out of date when the operational budgets are finalized and tied back to the enterprise's strategic plans and objectives.

Given the time and labor required to model strategic objectives, there is little opportunity for the rest of the organization to properly link operational plans with corporate objectives. Opportunities are lost, serious resource issues go unnoted, and there is minimal accountability and commitment to corporate objectives.

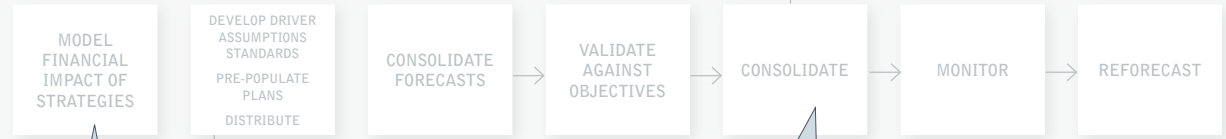
EXECUTIVE MANAGEMENT



Planning cycle time takes 6+ months

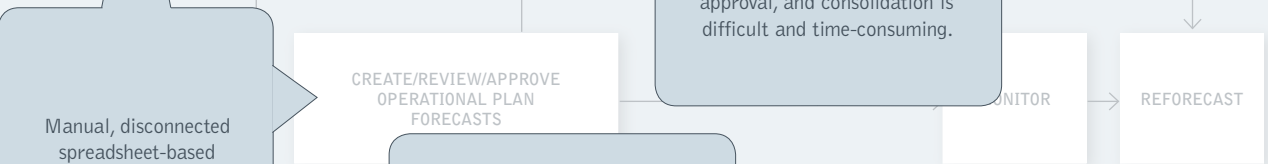
Manual process and inadequate performance feedback prevent many chains from adjusting plans to changing business conditions like competition, weather, new initiatives, or consumer behavior.

CORPORATE FINANCE



Managing plan completion, approval, and consolidation is difficult and time-consuming.

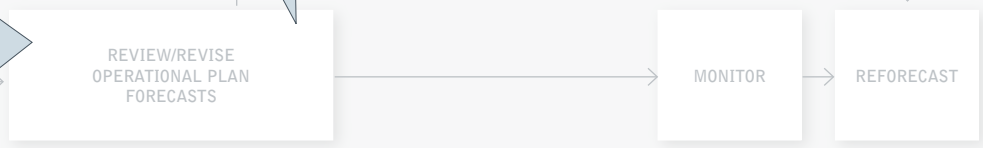
FUNCTIONAL EXECUTIVES



Manual, disconnected spreadsheet-based models increase error, prolong cycles, and inhibit synchronizing and consolidating financial and operational plans.

Operational teams may be aware of new strategic objectives, but cannot see total impact on stores, departments, or functional areas.

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- Merchants/Buyers
- DC/Warehouse Mgrs

Leading chains replace manual spreadsheets with robust, multi-dimensional enterprise-wide modeling and integrated workflows to speed process, reduce error, and improve control, visibility, and accountability.

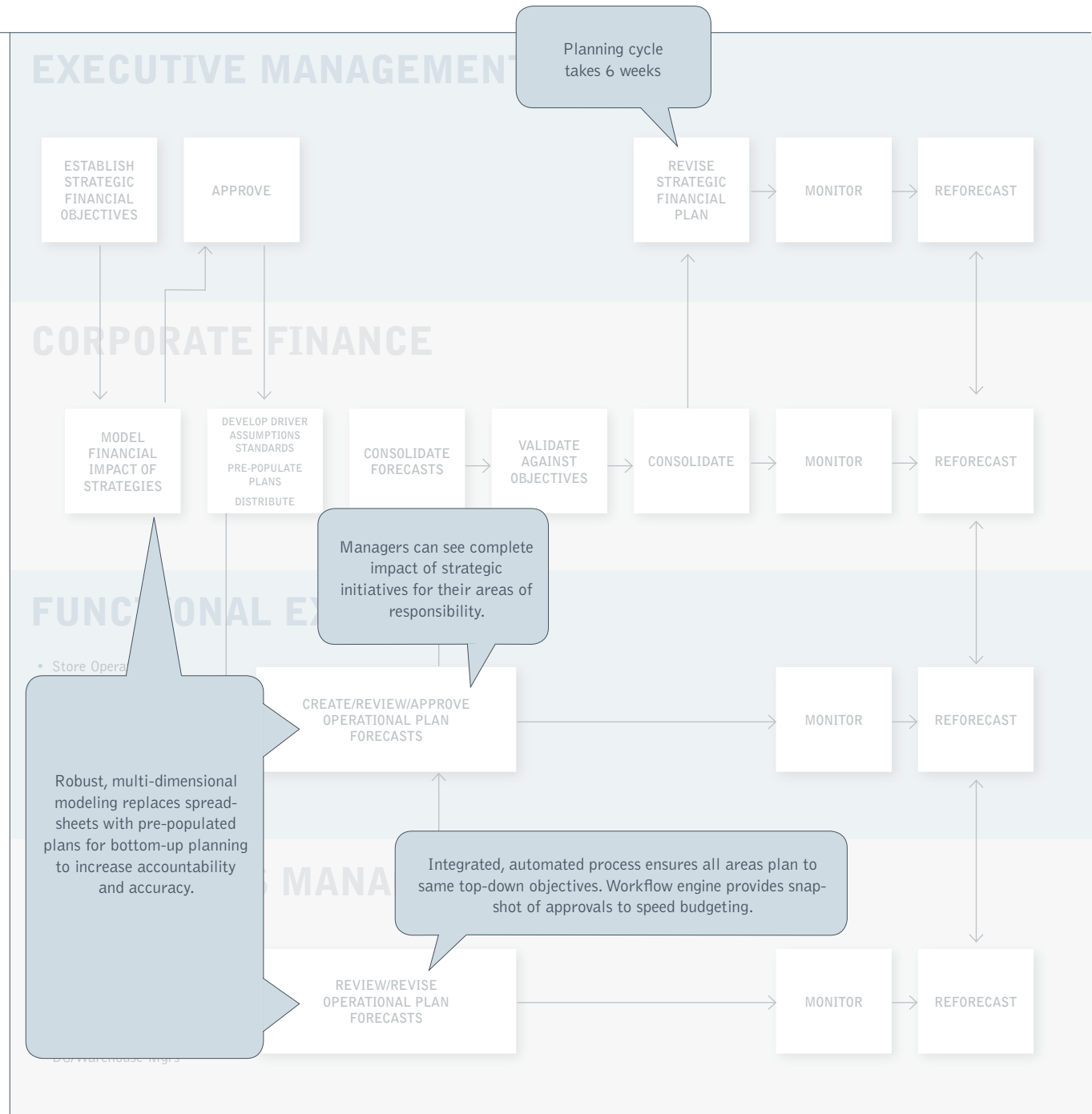
Based upon industry best practices, the Cognos Retail Performance Blueprint offers an integrated top-down, bottom-up approach to accelerate planning and increase participation for operational managers across the enterprise.

What-if modeling capabilities assist in profitable decision-making, letting managers assess financial impact of options, run multiple scenarios, and simulate contingencies. Break-back enables managers to prorate revenue, margins, or costs to meet goals.

Once objectives are agreed upon, business drivers, profiles, and standards are defined and used to pre-populate plans. This allows chains to deploy plans across the enterprise and include managers in the process without increasing complexity and time. Blueprints are easy to use and give operational managers visibility and a role in supporting corporate objectives.

Because Blueprints are automated with a powerful workflow engine, submitted and approved plans are automatically rolled up, letting management and finance teams review, analyze, and align operational plans with corporate goals and objectives.

Since the planning cycle can easily be reduced from months to mere weeks, iterations and meaningful resource reallocation can be accomplished in operational plans, while adhering to corporate goals. This leads to enhanced accountability and the ability to re-forecast and respond quickly to marketplace change.

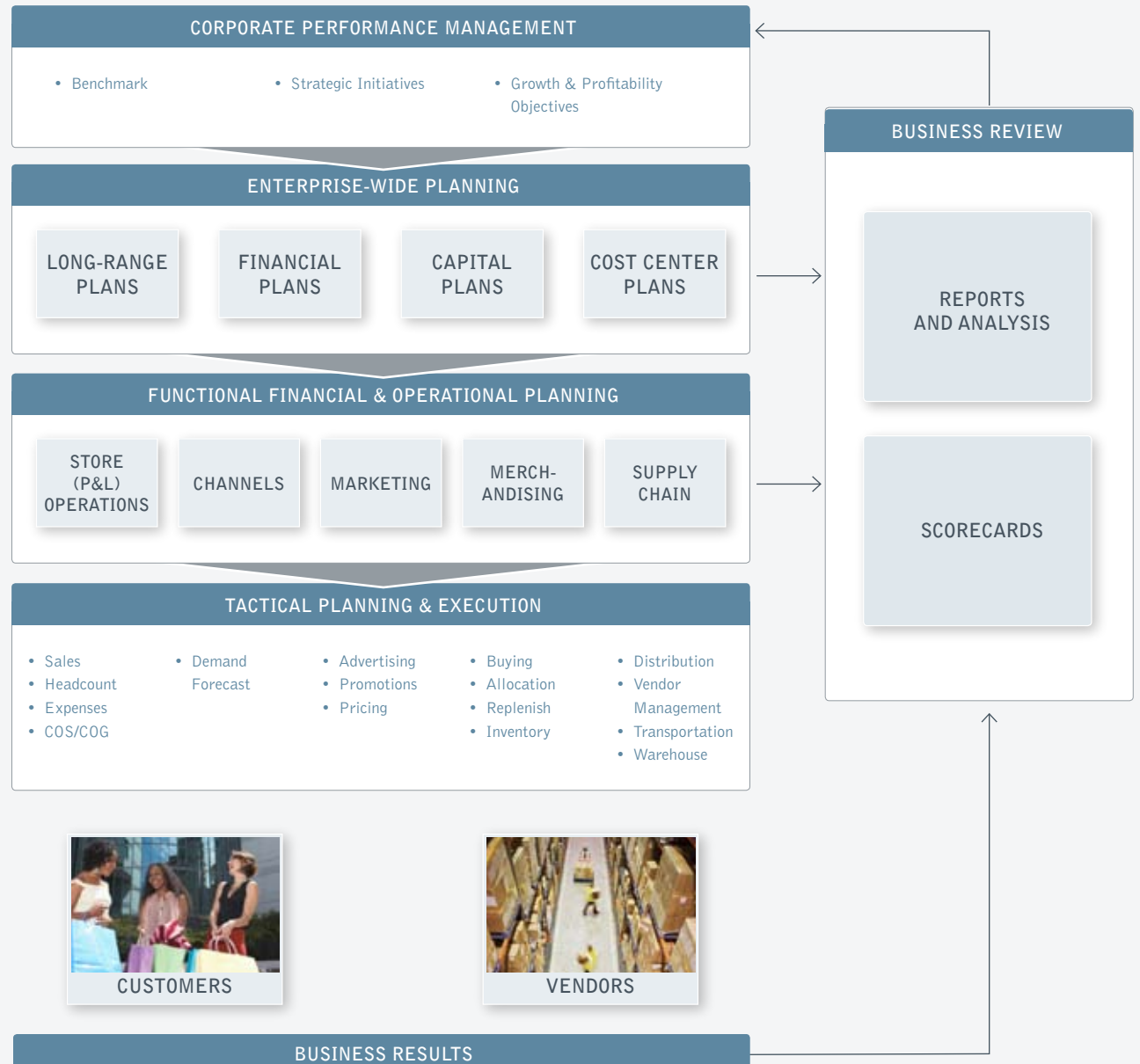


Enterprise planning with Cognos lets chains establish corporate targets and develop integrated, functional financial and operational plans across the enterprise.

Cognos Performance Blueprints are pre-configured solution building blocks that allow companies to jump-start their implementations. Under the hood, Blueprints are pre-defined data, process, and policy models that encapsulate collective best-practice knowledge from retail industry experts at the Cognos Innovation Center for Performance Management and input from leading retail chains. In the hands of Cognos Implementation Services consultants, Cognos-certified implementation partners, or experienced customers, these Blueprints reduce implementation schedules and improve project success rates.

Cognos offers great depth and breadth of experience in delivering performance management solutions to the retail industry. Worldwide, more than 300 chains rely on Cognos to improve performance.

Cognos delivers an integrated solution that replaces fragmented processes with continuous, collaborative planning that supports business drivers and delivers up-to-date insight into performance. Cognos helps you build a foundation for higher performance by connecting strategy to plans, targets, and operational objectives.

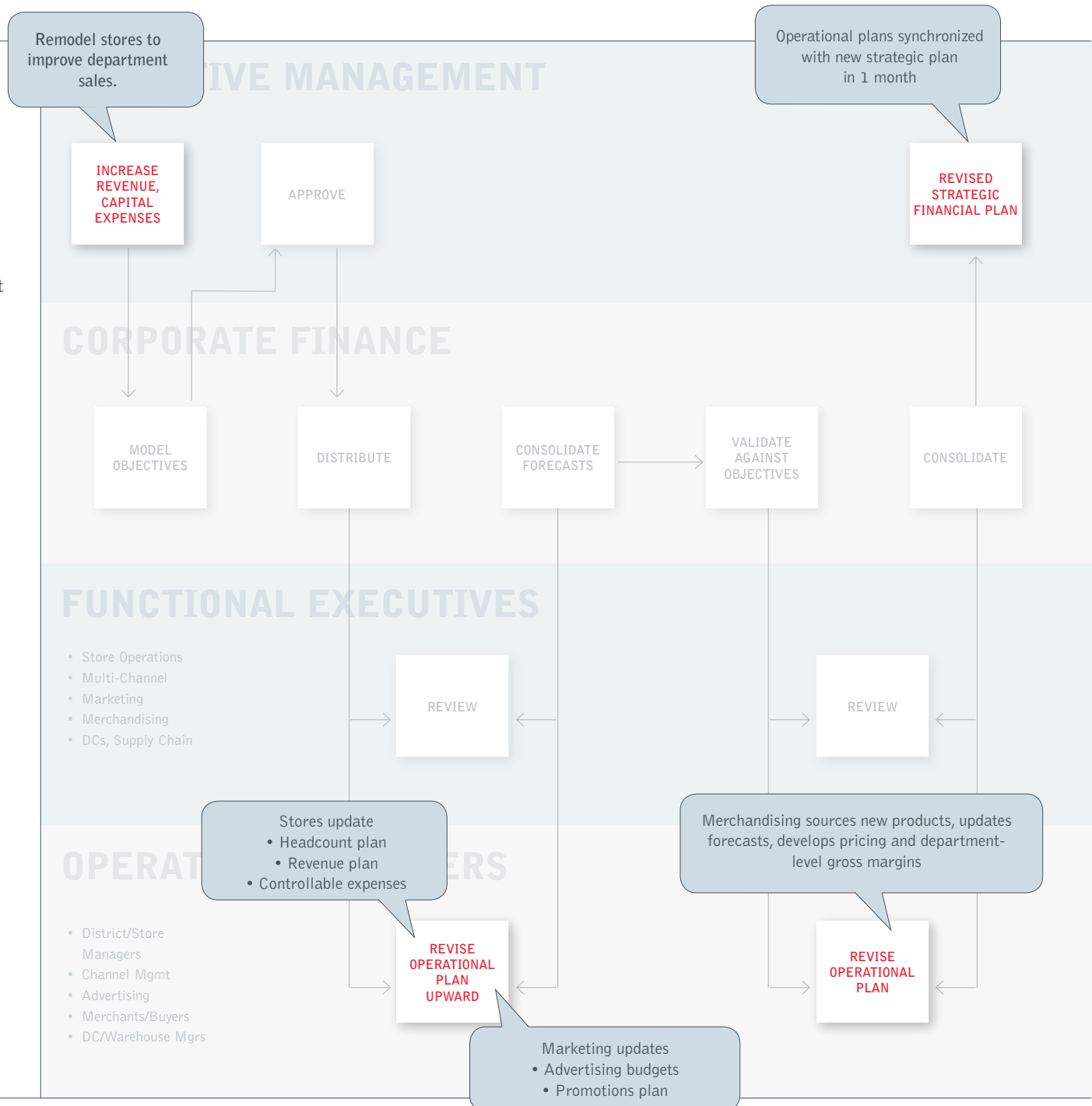


A best-practice workflow quickly adjusts profit forecasts and cascades down to operations as business conditions change.

Consider a retailer that decides to remodel key stores to improve department sales, raise revenues, increase basket size, impact loyalty, and increase profits. As part of this strategic initiative, a number of possible outcomes are modeled, and the most favorable scenario is selected.

These new objectives and financial targets are distributed using automated workflow to functional executives across the chain. Store operations, marketing, merchandising, and sourcing increase headcount and investments in advertising, merchandise, and supplies to support the remodel program. New plans are consolidated back to strategic forecasts and adjustments are made based on revised forecasts.

Within a few weeks, the entire organization is mobilized to carry out revised strategic objectives.



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The Cognos Innovation Center for Performance Management is dedicated to the understanding, adoption, and implementation of next-generation planning and performance management practices. It is a consortium of industry leaders, practitioners, thought leaders, forward-looking executives, and technology experts experienced in, and committed to, the advancement and successful application of technology-enabled performance management best practices. The Innovation Center seeks to assist organizations in optimizing the alignment of their plans, processes, and resources with corporate goals and strategies.