

IBM COGNOS SALES & OPERATIONS PLANNING (S&OP) EXECUTIVE REVIEW PERFORMANCE BLUEPRINT



A WEB-BASED
PERFORMANCE
MANAGEMENT
APPLICATION



INTRODUCTION

What if it were possible to tightly link sales, marketing, supply chain, manufacturing, and finance, so that executives could easily see the financial impact of plans, see variances between supply and demand plans, and align actual results with financial targets? Decision makers could continually fine tune plans backward and forward, to create the best plans—and substantially improve business agility and financial performance.

That's the purpose of sales and operations planning (S&OP)—to align demand, supply and finance plans. S&OP enables decision-makers to reach consensus on a single operating plan that drives increased market share and balances critical resources to reach performance goals.

Unfortunately, such cross-functional alignment is rare. According to a study by Ventana Research, “most firms (58 percent of those surveyed) do not have formal meetings to review demand and supply, do not address multiple lines of business or brands in those meetings, and do not have strict agendas for their top-level S&OP meeting.”¹ Meanwhile, companies that take simple steps toward S&OP, such as having plan-vs.-actual reports as part of a top-level reporting process, report “overwhelming” gains in gross margin, Ventana found. These top-performing companies also evaluate plans monthly, and those plans span 18 months or longer

¹ “Sales and Operations Planning: Measuring Maturity and Opportunity for Operational Performance Management,” Executive Summary, Ventana Research, 2006.

THE CALL FOR FINANCIAL DISCIPLINE

Because planning is the critical link between strategy and execution, improving S&OP processes will lead to enhanced organizational performance and competitiveness. S&OP brings to sales and marketing, supply chain, and operations the same kind of rigor, thoroughness and discipline that companies apply to their financial management and reporting systems.

While no regulatory framework of the kind governing financial statements exists for S&OP, many stock analysts are beginning to ask companies when they deliver earnings guidance what their S&OP plan reveals about potential performance. And for good reason: companies that strive to align their financial goals and S&OP hit their targets more often.

Fortunately, best practices in S&OP have matured over the past two decades, and information technology to support enterprise-wide S&OP has improved in recent years.

Some managers may ask why they need software to support S&OP, since existing ERP, supply chain, and demand planning solutions offer such capabilities as demand planning, financial planning, supply optimization, and supply scheduling. However, what's missing is the "glue" that ties it all together. To reap the full benefit of investment in these systems, executives also need a unified view of business performance across all functional areas and lines of business, along with the ability to perform what-if analysis, test assumptions, and see the immediate impact of these assumptions on the income statement, balance sheet and cash flow statements.

Product choices like IBM Cognos 8 Planning and IBM Cognos 8 Business Intelligence integrate with existing ERP and transaction systems and facilitate building a repeatable process for creating plans; provide ad-hoc, "what if" scenario planning; empower front-line decision-makers with dashboards, alerts, and scorecards to respond immediately to events; and measure the progress of their business responses toward mid- and long-term performance objectives.

IBM COGNOS S&OP PERFORMANCE BLUEPRINTS

In addition to software solutions, Cognos, an IBM company, develops *Blueprints*, which are predefined data, process and policy models that provide a best practice approach. Downloadable free of charge to Cognos customers, IBM Cognos Performance Blueprints provide out-of-the box functionality including dashboards, analytical reports, and a pre-configured data model to facilitate rapid time-to-value in S&OP.

Designed in collaboration with industry leaders and some of our most successful customers, each *Blueprint* is a Web-based process using IBM Cognos 8 Planning and Business Intelligence. The models and processes are designed for most manufacturing companies and can be configured to support alternative model requirements and to accommodate planning in any environment.

Blueprints are pre-populated with common operational drivers and business structures, dramatically reducing the time required to deploy a new performance management process. Customers benefit from proven practices in model design that greatly reduce investment in implementation time and resources.

Customers are not wasting time “reinventing the wheel” and can focus on applying the technology to solve business problems rather than fundamental process analysis and technical design.

S&OP SCORECARD

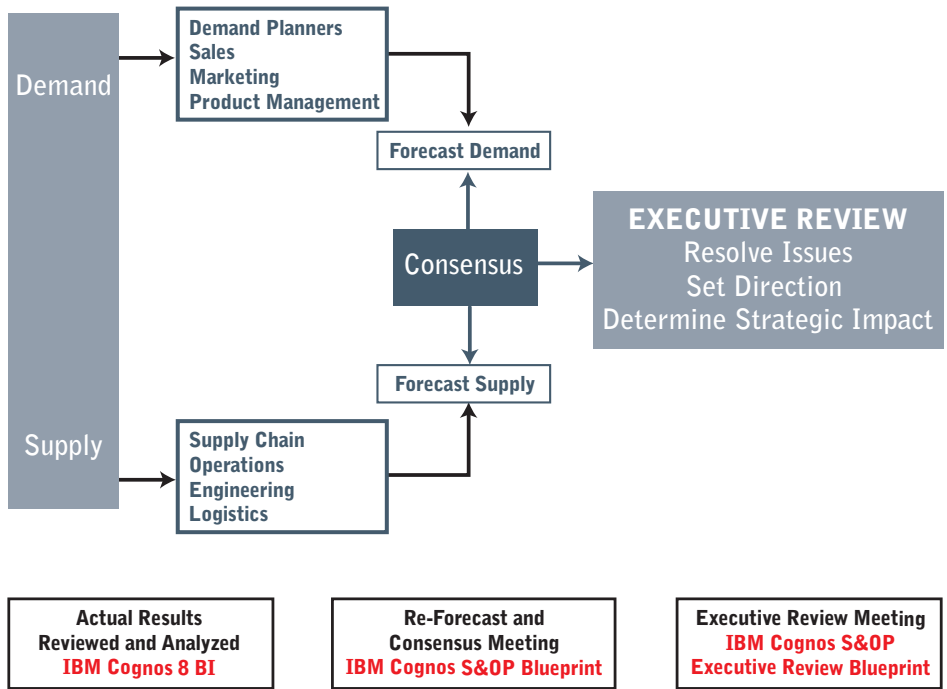
A Ventana Research survey of 470 large manufacturing organizations found:

- Most companies (58 percent) are new to S&OP and lack a rigorous process.
- Of those with a formal S&OP process in place, 65 percent have had it for less than five years. Most use it in limited fashion, for short-term planning for single entities or a single line of business that focuses only on demand, not supply.
- Many companies (42 percent) that have multiple factories or regional operating facilities do not include them in S&OP. Nor do most include new product introduction plans (57 percent) or use it to reconcile financial plans (60 percent) or to account for strategic initiatives and projects (59 percent).
- Even fewer (37 percent) have formal meetings where executives review S&OP.

Source: “Sales and Operations Planning: Measuring Maturity and Opportunity for Operational Performance Management,” Ventana Research, 2006.

IBM COGNOS S&OP BLUEPRINT PROCESS FLOW

An effective S&OP process combines the initial creation of a sales and operations plan with a periodic executive review. Cognos provides two *Blueprints* that enable each of these areas:



The first of these, the *IBM Cognos S&OP Performance Blueprint*, facilitates creation of the initial plan including the Demand Review, the Supply Review, and the Product Management Review, and any necessary monthly or quarterly adjustments.

In addition to the initial S&OP plan—typically an annual plan with rolling monthly or quarterly reviews—the most effective S&OP process also involves periodic S&OP reviews by senior management. The purpose of the executive review is to evaluate performance against the existing plan, identify any business or market changes that might necessitate changes to the plan, and to make necessary adjustments.

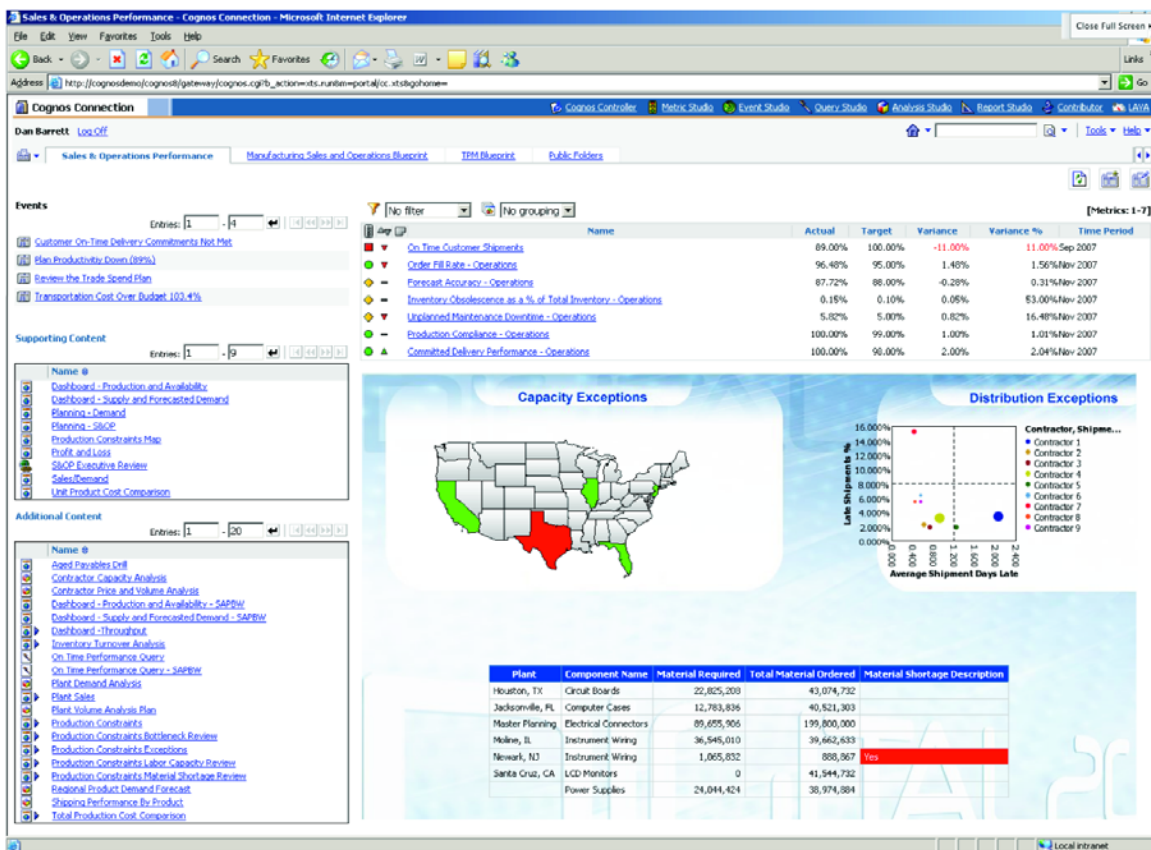
The *IBM Cognos S&OP Executive Review Performance Blueprint* is an executive management tool designed to facilitate this periodic review. Typically production and sales demand is reviewed weekly, and a formal S&OP executive review is conducted monthly.

The *IBM Cognos S&OP Executive Review Blueprint* is designed to:

- Drive the periodic executive S&OP review meeting
- Provide integration to the *IBM Cognos S&OP Blueprint*—an S&OP solution that drives the consensus building process in the demand and supply teams
- Access and analyze actual and forecasted demand, supply, and inventory metrics at a product family level by units and monetary value
- Conduct “*what-if*” scenario analysis to determine the most profitable plans
- Provides an integrated set of financial plans (Income Statement, Balance Sheet, and Cash Flow) so that the entire company is working towards a single set of financial objectives and business goals
- Measure financial performance of the plan (plan vs. actual) for revenue, cost of goods sold (COGS), and gross margin, with specific metrics including:
 - Summary of labor, machine, material and supplier constraints
 - Revenue: Units and value-plan, actual, variances on a periodic and cumulative basis
 - COGS: Plan and actuals
 - Inventory: Plan, actuals, variances, days on hand
 - Production days/month
 - Daily production rate: plan, actuals, variances on periodic and cumulative basis
 - Rough-cut capacity plan and actuals
 - Capture primary demand and supply issues
 - Capital acquisition requirements
 - Key financial metrics, ratios and measures.

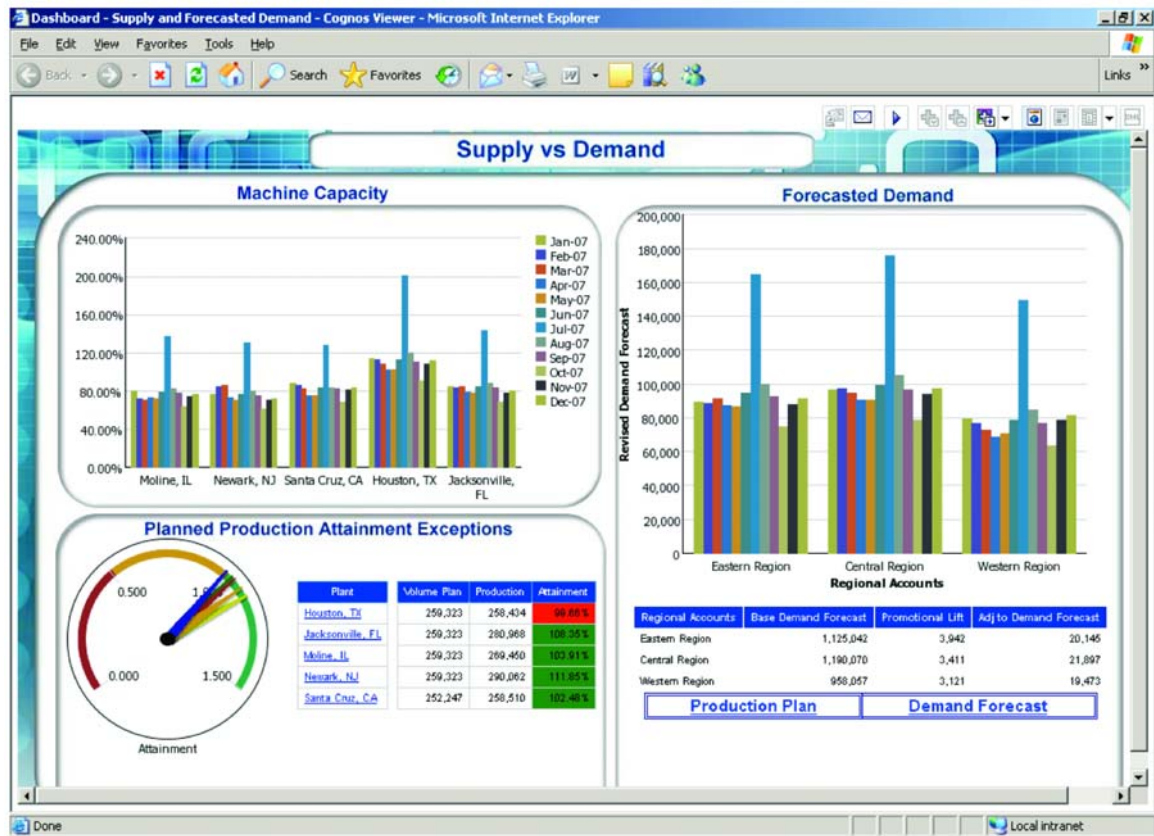
THE IBM COGNOS S&OP EXECUTIVE REVIEW BLUEPRINT IN ACTION

The IBM Cognos S&OP Executive Review Blueprint presents information in many forms with the capability to drill through to more detailed analyses and include up-to-date information from multiple transactional and planning systems. As a part of the S&OP executive review, Cognos provides portals and dashboards to drive the decision-making and review process. The Sales and Operations Performance Portal shows an example of the range of charts available to a decision maker. From this portal, the manager can access the full range of relevant metrics, reports, multi-dimensional analysis, and plans.



Sales and Operations Performance Portal

The executive is provided alerts to exceptions to the plan and can drill down to more detail as illustrated in this dashboard. Variances are immediately apparent between supply and demand plans, and between actuals and forecast.

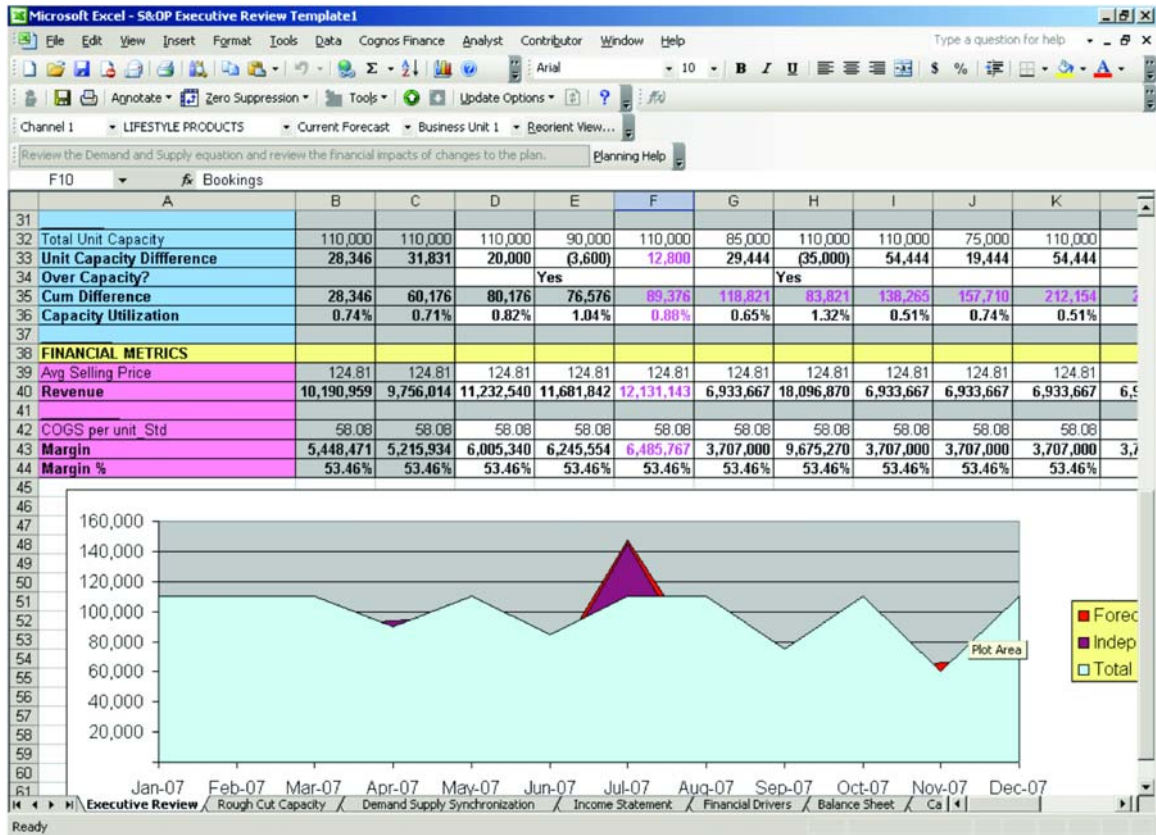


Supply vs. Demand Dashboard

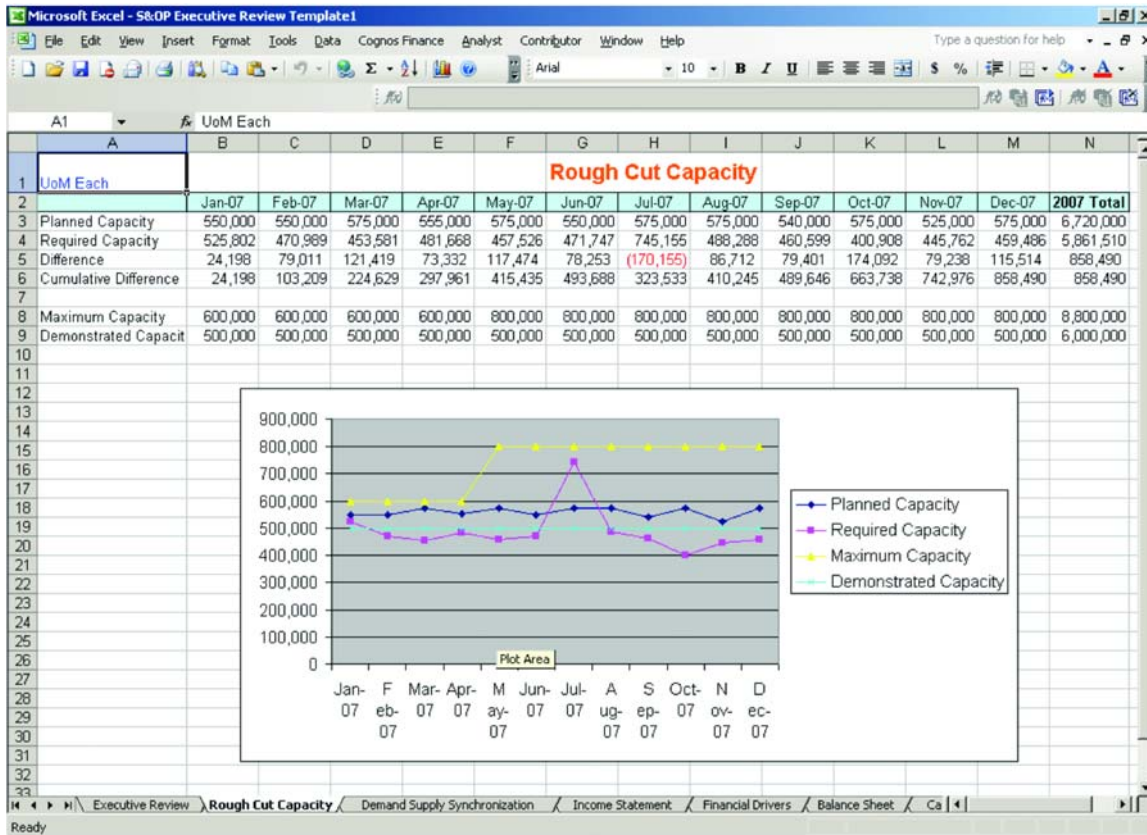
Using the *IBM Cognos S&OP Executive Review Blueprint*, the executive can make changes to the consensus plan to resolve issues, set direction and determine the strategic impact of those changes. The results of the changes are immediately visible through real-time charts, graphs and linkages to the income statement, balance sheet and cash flow statements.

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07
DEMAND											
Actual Shipments	81,654	78,169									
Bookings	57,026	58,385	90,000	93,600	97,200	100,800	104,400	108,000	111,600	115,200	
Forecast Demand	66,084	67,543	65,857	55,252	58,863	62,086	147,133	68,279	63,939	51,966	
Override Demand	55,556	55,556	55,556	55,556	55,556	55,556	145,000	55,556	55,556	55,556	
SUPPLY											
Beginning Inventory Units	126,000	144,454	159,263	159,263	115,663	68,463	62,907	(32,093)	(37,648)	(43,204)	(48,760)
Beginning Inventory Cost	7,318,080	8,389,865	9,249,976	9,249,976	6,717,688	3,976,312	3,653,645	(1,863,955)	(2,186,622)	(2,509,288)	(2,831,955)
Production Units	90,108	82,979	80,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	
Purchases Units	10,000	10,000	10,000								
Total Supply - Units	100,108	92,979	90,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	
Total Supply Cost	5,814,273	5,400,191	5,227,200	2,904,000	2,904,000	2,904,000	2,904,000	2,904,000	2,904,000	2,904,000	
COGS	4,742,487	4,540,081	5,227,200	5,436,288	5,645,376	3,226,667	8,421,600	3,226,667	3,226,667	3,226,667	
Ending Inventory Units	144,454	159,263	159,263	115,663	68,463	62,907	(32,093)	(37,648)	(43,204)	(48,760)	
Ending Inventory Cost	8,389,865	9,249,976	9,249,976	6,717,688	3,976,312	3,653,645	(1,863,955)	(2,186,622)	(2,509,288)	(2,831,955)	
Target Inventory	0	0	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	
Production Days per Mo.	26	23	26	25	26	25	26	26	25	26	
Daily Sales Rate	3,007	3,913	3,600	3,888	2,137	5,800	2,137	2,137	2,222	2,137	
Projected Days Supply	27.16	19.98	25.00	24.07	45.49	9.58	67.86	26.00	25.00	26.00	

Executive Review, with summary of demand and supply metrics by channel, product family and multiple scenarios



Executive Review, showing financial metrics and real-time updates to charts to support the decision-making process



Rough Cut Capacity review with real-time changes to charts based on changes to the supply and demand metrics

A FINAL WORD

The *IBM Cognos S&OP Executive Review Performance Blueprint* maximizes insight into sales, marketing, supply chain, and financial performance, and allows decision makers to build and continually fine tune plans that achieve business goals. Immediate visibility into the financial impact of those operational decisions can be used to drive planning. Better alignment between S&OP and financial goals delivers stronger business performance.

Effective S&OP enables a single statement of demand and a single agreed-upon supply plan. Each functional group works from common information, yet the information is presented in the way most meaningful to that group (units, dollars, hours, etc.). The result is improved coordination and communication, improved visibility across the entire supply chain, reduced costs, greater connectivity across all aspects of the supply chain, and improved customer service through better planning and more frequent review of performance and changes in business conditions.

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>.

All of the top 10 automakers and 19 of the top 20 consumer packaged goods companies have implemented Cognos performance management software to improve and direct corporate performance. *Consumer Goods Technology (CGT) Magazine* readers named Cognos the “Top Pure Play Business Intelligence Vendor” in 2007. *START-IT* magazine included Cognos on the “Hottest Companies” list two years in a row.



FOR MORE INFORMATION

Visit the Cognos Web site at www.cognos.com/manufacturing



REQUEST A CALL

To request a call or ask a question, go to www.cognos.com/contactme. A Cognos representative will respond to your enquiry within two business days.

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 planning and performance management techniques, technologies, and practices. 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, academics, industry leaders, and others seeking to accelerate adoption, reduce risk, and maximize the impact of technology-enabled performance management practices.