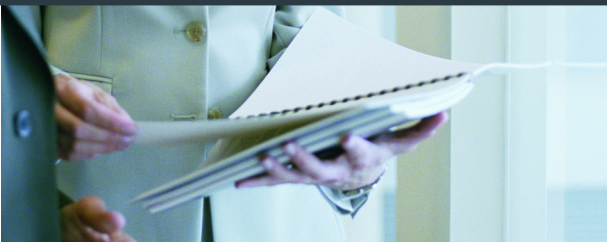


PROFILES IN PLANNING: DELUXE CORPORATION



INNOVATION IN ACTION
SERIES

PROFILE BY
VENTANA RESEARCH

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Deluxe Corporation

Cognos Enterprise Planning
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V E N T A N A
R E S E A R C H

Aligning Business and IT to Improve Performance

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Introduction

Ventana Research wrote a series of profiles based on in-depth interviews with Enterprise Planning customers. Budgeting and planning is a core topic on our research agenda because it is a fundamental requirement for effective Performance Management. We find companies that adopt dedicated planning applications are able to transform planning from a time consuming annual ritual with limited business benefits, to a process that takes less time, adds value and improves performance. These profiles are aimed at senior level finance officers who want to increase the effectiveness of their organization, or simply make the budgeting process more efficient.

Ventana Research interviewed eight companies that purchased Cognos Enterprise Planning to improve their planning and budgeting process: Ace Hardware, AmeriPath, Courts plc, Deluxe, Hollister, Lucent Technologies, Manpower and Pilgrim's Pride. All of the companies interviewed wanted to eliminate the inefficiencies and difficulties that go with using spreadsheets in planning and budgeting; all of them achieved additional, substantial benefits. In addition to the important time and labor savings gained by adopting Cognos Enterprise Planning, these eight companies collectively were able to:

- Control expenses more effectively and intelligently during challenging economic times.
- Achieve greater accountability through higher participation in the planning and budgeting process by business managers.
- Increase agility in adapting to changing conditions.
- Deepen visibility into the business to improve decisions.
- Ensure managers use resources effectively by applying internal benchmarking.
- Enhance the accuracy of their planning and budgeting process.

In short, these companies took a time-consuming, nearly universally loathed exercise, and began to transform it into a value-generating process.

Summary of the benefits and business areas deployed:

	Pilgrim's Pride	Hollister	Lucent Technologies	Manpower	Ace Hardware	Courts plc	AmeriPath	Deluxe
Benefits from Planning								
More efficient process	•	•	•	•	•	•	•	•
Deeper visibility; insight	•	•	•	•	•	•	•	•
Higher participation	•	•	•	•	•	•		•
More effective process			•	•	•	•	•	•
Greater accuracy	•	•	•	•	•			•
Improved agility	•					•		
More accountability		•	•	•		•		•
Better coordination	•	•	•					•
Reduced working capital		•	•					
Higher profitability; reduced costs				•	•			

Business Areas Deployed

Finance/Admin	•	•	•	•	•	•	•	•
Marketing/Sales		•	•		•			
Manufacturing/production		•					•	
Distribution		•			•			

The following profile is an excerpt of the entire "Profiles in Planning" report – highlighting how Deluxe Corporation used Cognos Enterprise Planning and realized demonstrable business value from its investment. The full report with all eight company profiles is available at www.cognos.com/profilesinplanning. The full report provides additional analysis and commentary as well as suggested next steps to get the most value from your budgeting and planning process.

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DELUXE CORPORATION

Industry: Manifold Business Forms [SIC 2761/NAICS 323116]

Locations: United States, Europe

Initial deployment: 1998

Current users: Approximately 350

Applications:

- Finance - budgeting/planning/reporting
- Cost center managers - forecasting

Innovations:

- Rolling 15 month forecasting; project forecasting; revenue reporting, EVA, Project Management, Strategic Planning, Activity-Based Costing

Benefits:

- Time saved in planning and reporting enabling better business insight; wider participation in planning causing higher accuracy of plans and greater accountability; more effective project management; supports ABC data collection

Company Description

Deluxe Corporation is the largest supplier of checks in the United States, providing check printing services for about 10,000 financial institutions and selling direct to small businesses and consumers. The demise of the check has been widely predicted for the past two decades because of the spread of ATMs, increasing use of credit and debit cards, and - more recently - Internet payment/on-line banking options. Yet in the U.S., checks continue to be consumers' preferred method of non-cash payment. According to the Federal Reserve, some 42 billion are written each year.

Still, the volume of checks written has declined from their mid-1990s peak of around 50 million as debit card use has soared, and Deluxe's unit volume has declined 5% since 2000. Deluxe also faces challenges as banks continue to consolidate. Financial institutions accounted for 80% of checks ordered by consumers and small businesses in 2002, and as mergers produce larger institutions, Deluxe faces pressures to cut prices due to higher volumes. To address these challenges the company has sought to build its direct-to-consumer business and offer checks with premium-priced designs as well as offering value-added services to financial institutions (e.g., outsourced check ordering through Deluxe's own call centers).

Between 2000 and 2002, the company offset the impact on volume declines by increasing its per unit revenue realization by 7%. Deluxe's strategy also focuses on customer retention and, responding to pricing pressures, improving customer profitability through ongoing cost reduction efforts across its entire business system.

Our Findings

Deluxe has used Cognos Enterprise Planning to substantially improve the value of its planning and budgeting process. Eliminating spreadsheets has saved time in planning and reporting which, in turn, has given the company more time to analyze and gain better business insight. Wider and deeper participation in the planning process has produced more accurate plans and fostered greater accountability because participants buy into the process. The company has used the tool to promote more effective project management, and the data collected supports its activity-based costing (ABC) initiative.

Background

Planning and Budgeting at Deluxe

We found controlling costs is a strategic focus at Deluxe, so planning and budgeting are important. We asked Ryan MacAskill, Senior Financial Analyst, about the process. Planning and budgeting are separate functions at the company. The company performs detailed operational rolling budgets (by cost center and account number) on a quarterly basis, and high-level forecasts (i.e., at the functional level) monthly. Cost center managers, project leads, and financial analysts participate in the budgeting process. The company also creates integrated pro forma financial statements including the income statement, balance sheet, and cash flow. Another purpose of the plan is to collect work distributions for the activity-based costing group.

The Purchasing Decision

The decision to buy Planning was made in 1998. Deluxe evaluated all of the major planning and reporting packages designed for large enterprise users.

Ryan - We wanted to get a tool to use for reporting and forecasting quickly as we found out that [our ERP package being deployed then] was terrible for reporting and even worse for forecasting. The criteria were ease-of-use and quick deployment. Planning was the fastest to deploy, easiest to use, most flexible and needed almost no IT support and at the time, it was cheapest: it was an easy sell.

Deluxe had several other objectives for the tool: strategic enterprise-wide planning, rapid consolidation and closing, and data integrity were the main goals. Scalability was a requirement since the company received a bit more than half of the planning spreadsheets around the day they were due. It wanted to make sure that the system would be able to handle that sort of volume. Another IT issue was the need to integrate with the existing ERP system in order to, for example, import monthly actuals. This integration proved to be straightforward and the import only takes about one hour a month to complete. Deluxe considered using its ERP system for planning purposes but found that this leading package could not handle the task to its satisfaction, particularly with respect to functionality and flexibility.

Implementation and Roll Out

The initial deployment began in the fall of 1998. It took 5 weeks for the initial roll out and a few months to get everything up and running. We found this to be a typical experience. That deployment required one person from IT, no more than four Deluxe employees working three-quarters of their time, and two vendor consultants. Initially 20 people in the finance department were using the software for reporting and forecasting. Subsequently Deluxe implemented cost center forecasting, project forecasting, revenue reporting, and activity-based costing data collection.

Once the initial setup was completed no additional IT resources were required other than assisting in upgrades, backing up and maintaining servers, etc. The finance department handles the building of models and any changes that must be made to them. The web-based collaboration makes it possible for the company to get high involvement simply and efficiently. Deluxe has had no problem with performance. The automated consolidation has met its requirements to reduce the time and effort needed to complete the budget cycle.

Training was an important part of the evaluation – the company could not afford to spend months getting users up to speed. Training was straightforward requiring two weeks, start to finish, done in half-day intervals. The software has the look and feel of a spreadsheet, which simplifies the process. Training is now done generally on an ad hoc basis, one-on-one for new employees that will be using the system.

Benefits

A Smoother Shorter Easier Budgeting Process

We found that prior to deploying Cognos Enterprise Planning Deluxe suffered from the classic maladies of a large enterprise using spreadsheets to collect its budget data. It took finance about three months to create the annual plan template, get these distributed to cost center managers and get them back. Then the tedious process of linking the spreadsheets and consolidating them began. It took weeks to complete this task.

Sometimes finance got a formula wrong so every spreadsheet had to be revised consistently and changes tracked and verified. Or, finance forgot to lock down a part of the spreadsheet and a manager added rows or columns, kicking off the process of finding the source of this problem. If during the budget preparation cycle any major assumptions were changed, such as when a customer would be acquired, the timing of a project or its milestones, or if benefits assumptions changed, the spreadsheets would have to be resent to the cost center managers, they would make the changes, and the roll-up process would begin again.

Ryan – There were issues of poor data integrity such as wrong formulas and broken links to spreadsheets. We were very slow to reforecast. The bottom line is that spreadsheets are not a good planning tool. Now, rather than having 23 finance people crunching spreadsheets to make sure that the numbers roll up the way they're supposed to we have them talking to the business people and doing more analysis. I'm the only one worrying about collecting the numbers now.

One of the direct impacts of a spreadsheet-based system is that the Deluxe finance department would spend 80 percent of its time collecting and processing the budget numbers and only 20 percent analyzing them. This is consistent with other companies that we have studied that use a spreadsheet budgeting systems.

Greater Insight

Spending that much time chasing spreadsheets left little time for the company's financial analysts to do what they did best. We determined that almost immediately after rolling out Cognos Enterprise Planning and automating the budgeting process, Deluxe had greater insight into its operations.

Ryan – When we started using Planning for reporting we could identify trends easier. There was data that are more accurate, it was easier to reforecast. In one case we saw something in Planning that we did not see in the reports coming out of [our ERP] system. After we got Planning it was easier to pass things around for everyone – not just finance and the leadership team but the next level down, decision makers, were getting better information.

Ventana Research has found that one major reason why planning and budgeting has become a rote function within organizations without much strategic or operational value is that process has overwhelmed the purpose. Eliminating spreadsheets enables Deluxe to focus on the real reason why it creates plans and budgets in the first place.

Rolling Budgets Reforecast Quarterly

Another improvement to the planning process has been a move to a 15 month rolling budget. Ventana Research believes that rolling forecasts are best practices and ought to be universally adopted. Although it is possible to support rolling plans and budgets with manual systems or spreadsheets, we think that for many companies the transition can be managed more smoothly with a dedicated planning/budgeting tool that allows for widespread collaboration and rapid consolidation.

Ryan – We used to do the operating plan annually because the process was so clumsy. With Planning we could do it quarterly. We have a much more up-to-date forecast that is much closer to what is going on.

Each quarter Deluxe does a detailed expense forecast for about 400 cost centers (including manufacturing, sales, marketing, finance, HR, procurement in each of various business unit managers and their financial analysts). The collection period is one week from start to finish to give managers flexibility as to when they will complete their plan, even though it typically only takes a day or two days to perform their part of the process. Once the data is available, rolling up takes a couple of hours. Pulling together this level of detail on a quarterly basis would be a challenge for Deluxe under its old spreadsheet-based system:

Ryan - It took months for us to put together an annual operating plan. How useful is a quarterly reforecast when it's available only in the middle of the next quarter?

Achieving Greater Accountability, Buy-in and Forecast Accuracy

Our research indicates that all too often in spreadsheet-based budgeting systems the lack of time available to pull together the numbers one more time results in a business unit forecast being created centrally by the finance organization or senior executives. In other words, it is dictation rather than a structured dialog. A consequence of this expediency is the lack of buy-in to the plan by the front line employees, and therefore the inability of the organization to use the plan/budget as a performance management tool. We found this to be the case with Deluxe before deploying Cognos Enterprise Planning.

Ryan - We wanted to get away from the complaints we heard that: 'this forecast is a Finance forecast - granted we have some input, but Finance is driving it.' We tried not to do it that way but it was easier to get it done that way. When we got Cognos Enterprise Planning we told everyone: 'you guys tell us what's going on and we'll use your numbers.' There was more accountability, no more 'You're not meeting your forecast - well, Finance made it up for me.'

The company has found that users have seen benefits. Since they have greater ownership of the numbers, they set goals that are more realistic. They can revisit and adjust their goals by themselves on a regular basis. Moreover, it has found that if the cost center and plant managers are more involved in the forecast, the forecasts will be significantly more accurate.

Managing Projects More Effectively

Like any large organization, Deluxe has many new business initiatives underway at any given time. However, many of these projects are specifically aimed at addressing the company's core business challenges of creating opportunities to realize higher unit prices or reducing the cost of getting its products into the hands of the ultimate consumer. Management of these initiatives was difficult for the company to track back when it was working with spreadsheets, but with Planning it became easy for each project manager to use the system.

Ryan - We are using planning to manage project forecasting - initiatives like 'Deluxe Select.' Now we can have the program managers involved - working with Finance - to input their forecast. We roll all this up so that we are sure we have the cash for capital expenditures. The other thing is we make the project managers more accountable. If you say 'we're going to save 'x' amount of dollars' in your forecast we're going to hold you to it.

Deluxe Select was an important initiative designed to enable the company to manage the entire check ordering process, working directly with customers of its financial institution clients. In essence, the banks would be outsourcing this activity, saving the cost of executing this ancillary function, and they (and Deluxe) stood to benefit if their customers spent more on premium checks and other services.

Ryan – We monitored the entire project. When the project leader said that they would make 'x' million on the project, this flowed into our revenue forecast. And when they said they would need 'y' million for ongoing advertising, that was pushed out to the cost centers. This way we don't miss anything and we can tell if it was a successful project and how well we did. We can get this information out of [our ERP system] but it's a lot sloppier and we can't get reports out of it.

Easier Data Collection for ABC

Companies that Ventana Research has interviewed typically start using Planning for creating and managing the budget process, but they often use the software to support any process that requires collecting manually generated data from the field, whether it is directly related to a planning function or not. This is because it is easy for end users to get the numbers in.

For those that have to aggregate the numbers, consolidation and roll-up is easy and fast, and there are no process-related data integrity issues. Moreover, workflow functions built into the system simplifies the administration of the process. Deluxe uses activity-based costing (ABC) as a methodology to optimize profitability within the scope of its strategic objectives. ABC identifies the relationship between cost drivers and activities so that companies know what costs were incurred and why they were. Deluxe uses Planning as a means of collecting data that is used in their ABC system.

Future Plans

Deluxe plans to extend its use of the system to automate forecasting and reporting processes throughout Deluxe in order to free up time spent on processing data to make more time available to analyze the information and act on it.

In addition, Deluxe is considering managing the strategic plan in Cognos Enterprise Planning, partly to cut down on the administrative overhead of the process, as well as to integrate it with the rolling forecast. The idea is to have a high-level strategic plan that's updated quarterly; one that immediately reflects the current reality.

Ryan - If we run a pilot and the project is a stinker, we need to figure out how we can plug the hole to make our longer-term numbers. We need to know how today's decisions will impact the future. We need to know how these projects are going to affect the future. We need to be able to ask 'What if our assumptions about benefit costs goes way off? What if everyone uses an ATM card real soon instead of checks?'

Another reason for changing is to get more people involved in the long-term view. Before it was finance working with marketing folks. We want to work more closely with them so we can spend more time thinking about the projects and other initiatives, instead of looking how the models were built.

Another area of focus being considered by Deluxe is a sales forecasting application. We have found Cognos Enterprise Planning supports sales forecasting systems that are either stand-alone or integrated with major CRM systems. This is an attractive option for this since those sending in data can be connected to the system through the Web (handy for an often mobile group such as sales). One of the advantages of bringing sales forecasts into the planning process is that closing sales is often the major factor in driver-based forecasting systems such as Planning.

The Bottom Line

Deluxe was looking for software that would be easy to use and could be deployed quickly. It found Cognos Enterprise Planning was the fastest to deploy, easiest to use, most flexible and needed almost no IT support. Moreover, Ventana Research concludes that by deploying the software the company was able to:

- Accelerate the collection and rollup of the budget data – allowing the finance group to do more analysis to gain greater insight
- Increase participation in the budgeting process resulting in greater accountability and buy-in
- Execute quarterly forecasts that have proven to be more accurate because they are more timely

In addition, Cognos Enterprise Planning has supported other finance department initiatives. Project management has been made more effective because project specific data is collected and tracked, and the software is used to support collection of data necessary for the company's activity-based costing initiatives.

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