

Driving performance enterprise planning

What is planned gets executed

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Abstract

Unless real results are achieved, all the planning, process development and technology investments that go into a major corporate initiative may be wasted. That's where enterprise planning comes in. By combining target-setting, planning, measurement, analysis and forecasting, IBM Cognos® enterprise planning can achieve dramatic results and improve the operation of any organization.

Overview

The execution imperative

The dynamic business environment – continuing deregulation, advances in technology, new disclosure requirements, wary investors – creates both challenges and demands for accurate business planning and forecasting. For private companies, better planning is a competitive necessity. For public companies, poor planning has a direct bearing on shareholder value.

Studies show that the markets consistently punish companies that do not accurately forecast their financial performance, even if that performance is objectively good. By contrast, companies that can consistently deliver forecasted results are rewarded with a premium in their market capitalization.

Business leaders, analysts, and other business watchers have pointed out the need to manage company-wide performance more effectively. Planning is a key element of this corporate performance management (CPM) approach. Smart organizations are winning through an integrated strategy for CPM. They drive enterprise performance through planning; they monitor performance through scorecarding, and understand that performance through reporting and analysis.

Yet, many companies attempt to manage dynamic global businesses with wholly inadequate planning systems and processes. The collective result is an inability to execute the game plan. And failure to execute – or even perceived failure to execute – can have profoundly negative short and long-term effects on performance.

Business problems

The issues surrounding enterprise execution

To achieve superior enterprise performance, companies must successfully address numerous people, process, and technology issues.

Alignment: “How can I make a difference?” Today, it is common for individual targets and goals to stray significantly from corporate objectives. Discrete targets are frequently calibrated well below best-in-class metrics and parameters, with the link between individual actions and financial measures often absent. Ideally, operational goals should be supported by well-defined operating plans. These plans should be executed by those who understand the impact of their decisions and actions, and who are encouraged to perform optimally.

Accountability: “These aren’t my numbers – they’re finance’s.” Often, companies find that a plan imposed from the top down – planning by the few for the many – fails to secure commitment and buy-in at lower levels of the company “where the rubber meets the road.” Top-down-only planning can lead to a fundamental disconnect between senior executives and field management.

Motivation: “That’s not my problem.” Too narrow a focus or misaligned compensation can create troublesome barriers to execution. By contrast, well-executing companies coordinate functions, territories, and projects, and reward superior performance through aligned compensation programs. In turn, they avoid the game playing, sandbagging, and other tactics that encumber many performance management processes.

Collaboration: *“Why don’t our numbers agree with theirs?”* Companies must avoid the “disconnected enterprise” where divisional or departmental objectives, goals, and targets are developed in isolation. Such fragmented processes create silos that do not take into account departmental interdependencies. Fragmentation also leads to tedious reconciliation and reworking that drain productivity and hinder analysis. The alternative is a networked, collaborative performance environment built on common assumptions and logic. This fosters an open dialogue to reconcile top-down expectations with operational realities.

Cycle times: *“The plan was just published – and it’s already out of date.”* If the annual budgeting process takes several months to complete – with time wasted in reconciliation and reworking – it has long since decoupled from the cycle that optimal performance requires. Companies need planning cycles measured in days or weeks. They need established performance goals that automatically link across functions and geographies using a common framework for understanding.

Systems: *“How can we move to a rolling forecast when we’re drowning in spreadsheets?”* For too many companies, planning and performance management are a “million spreadsheet march” of annual-budget consolidations that creates inaccuracies and miscommunication. Worse still, the manual overhead required by this process lengthens the lumbering cycle. However, there is a better way: an enterprise planning platform that provides the speed and flexibility needed to support rolling forecasts.

Control: *“Let’s focus on the quality of the information for analysis, not the mechanics of collecting it.”* Spreadsheets are inherently unable to offer the control, security, and structured approach that enterprises require. Companies need flexibility within appropriate parameters and automated workflow management. Historically, planning and forecasting were used to control the enterprise, but now these processes can drive enterprise performance.

Responsiveness and scalability: *“If that’s the response time I can expect, forget it – I’m going back to spreadsheets.”* Spreadsheets are an excellent personal productivity tool – but they are not even close to an enterprise-caliber platform for planning and performance management. Server-centric solutions are too slow and can have significant variations in response-time. Similarly, resource-hungry development and maintenance cycles also stall wide adoption. The enterprise solution is a rapidly deployable technology platform using Web-based solutions. It can intelligently distribute processing between server and client to accelerate planning cycles and encourage end users.

Support: *“We need to support this solution without IT involvement.”* In a volatile business climate, there is often no time to schedule scarce IT resources or explain evolving requirements. End users need to control their own systems, without needing to become programmers themselves.

Ultimately, a well-executing company is a coordinated enterprise, with cascading, aligned plans that seamlessly share millions of information points among thousands of people engaged in tens of thousands of interactions on a daily basis – in synch and in real time. It relies on a single, reliable set of numbers – one version of the truth – to understand and plan its performance.

What metrics can be used to define best-in-class processes?

Here are some of the measures companies use to gauge their planning and performance management proficiency.

| PROCESS | AVERAGE | BEST-IN-CLASS |
|--------------------------------------------------------------------------------------|-----------------------|-------------------|
| Tactical and financial planning cycle time | 4 months | 1 month |
| Strategic planning cycle time | 5 months | 1 month |
| Level of budget detail (number of line items) | 230 | 15 |
| Planning and reporting resource requirement (person-days per \$1 billion of revenue) | 25,703 | 700 |
| Forecasting basis | Current calendar year | Rolling quarterly |

Business drivers

Introducing enterprise planning

What is the right solution for enterprises seeking a higher level of execution? Is it budgeting and forecasting? Performance measurement? Financial reporting? Management scorecards? The fact is—taken separately—these initiatives are only partial solutions.

True enterprise planning emerges where business planning, business intelligence, and business analytics intersect. The cornerstone is planning. Performance must be planned in a coordinated way that integrates the many planning, reporting, and analytical processes underway at a given time in a large enterprise.

Into the breach comes enterprise planning. Enterprise planning is a multi-phased discipline that combines people, process, and technology in a rich, continuous, broadly collaborative cycle. It provides useful insight into past, current, and future operating performance in time to identify opportunities and affect outcomes.

Enterprise planning means articulating what you want to achieve, and how you will achieve it—through a hierarchy of cascading plans, measures, and reports that flow from corporate objectives to tactical plans across departments, divisions, and locations. It relies on the input and commitment of the hundreds or thousands of people who must execute against changing performance goals. And it stays up to date through real-time visibility and focus on the value-driving activities that affect performance against stated goals.

Enterprise planning enables you to:

- Execute the game plan
- Gain everyone's commitment to performance goals
- Integrate disparate processes across the enterprise
- Realign and refocus as conditions change

Enterprise planning encompasses the entire process and technology base upon which an organization creates a clear-cut strategy for achieving best-in-class status. It turns that strategy into discrete plans and budgets for every relevant employee and external partner. It communicates those plans – and the actions required – to those who need to know. It provides real-time feedback, and realigns plans as the situation evolves. At the same time, enterprise planning ensures that performance plans and forecasts are coordinated across functional and geographical silos, providing a consistent, enterprise-wide understanding of how to execute the game plan.

]The pressing need that enterprise planning must address

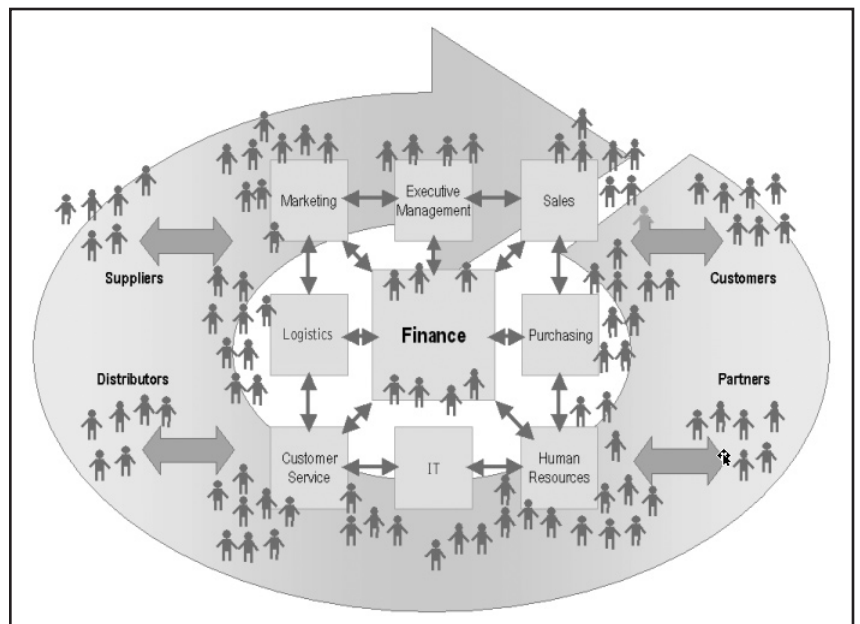
Enterprise planning revolves around four key benefits to the organization. They include the traditional “time, cost, and quality” factors as well as a fourth: “focus.”

Faster information. Any business executive would agree that the value of strategic and business plans diminishes rapidly over time. Yet traditional planning and budgeting processes can drag on painfully. It’s not unprecedented for some companies to take more than 12 months to build an annual plan. The pace of business today cannot support such slow process cycles.

Lower costs. In many corporations, planning and performance management have become unduly costly. One estimate suggests that a company typically devotes 25,000 worker-days to these activities for every US \$1 billion in sales. Depending on how you value the time involved, that’s equivalent to 1.5 percent of sales revenue. What’s more, traditional planning and budgeting processes can consume as much as 20-30 percent of management time – which equates to some 3.0 percent of sales.

Greater accuracy. Investors are placing greater emphasis than ever on forecast accuracy, and display a zero-tolerance approach to earnings surprises. In fact, the Cranfield School of Management estimates that predictability of financial performance is second only to actual financial results in determining a company’s market valuation. Enterprise planning initiatives must provide ever-finer levels of precision in forecasts and stated performance goals.

Focus. “What gets measured gets managed.” Enterprise planning offers a corollary to this business-school axiom: “What gets planned gets executed.” By facilitating individual responsibility and accountability, enterprise planning helps the enterprise focus attention on the issues, metrics, and value-creating activities that matter.



Enterprise planning: Millions of information points between thousands of people responding to thousands of interactions on a daily basis – coordinated and in real time.

The solution

Seven steps to best-in-class performance

1. Establish the game plan: Model

The first step in any enterprise planning initiative is to start at a very high level to assess and define what best-in-class performance will mean to your organization. What are the criteria – the important metrics – that define success in your markets? How can you realize your organization’s full potential? How can you eliminate or minimize constraints? What external factors will impact your game plan?

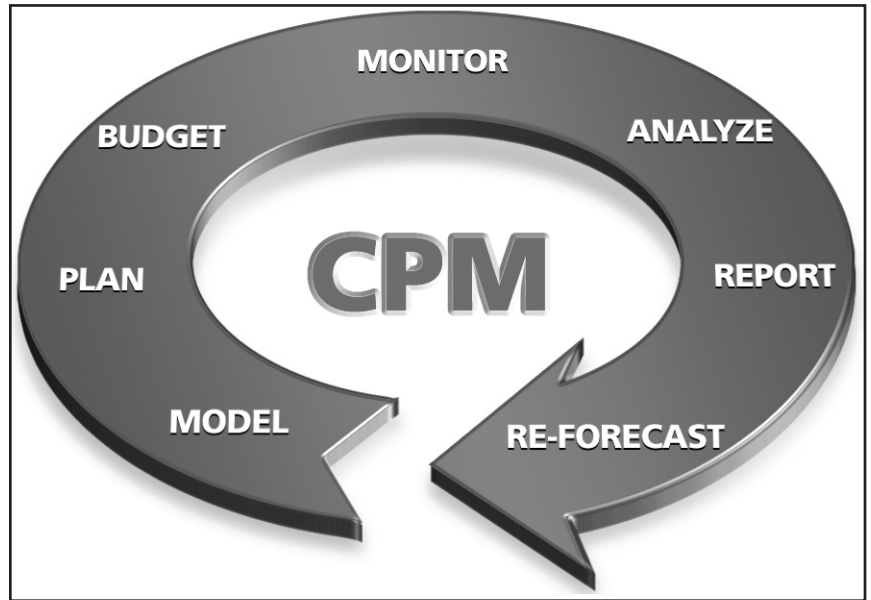
To get the full range of options, first determine what your key assumptions are: desired growth rates, market share, and productivity metrics. Once you've made these determinations, you can create a model that properly links your drivers to outcomes. It is an iterative process that can range from strategic change – such as new ideas, or technologies – to operational change – such as daily updates of performance data for rapid assessment/adjustment. This is the ideal time to explore other options – for example, what happens if you acquire or divest business lines?

Even though the modeling process is continuous, a key element of enterprise planning is that the model itself balances all organizational resources and initiatives. Consistent, interconnected models will equip you to assess a complete range of possibilities – and their implications – to improve the service quality of your business.

How IBM Cognos 8 Planning helps you establish the game plan

Powerful modeling capabilities give you unprecedented flexibility to build, compare, and assess alternative business scenarios, conditions, cases, and assumptions.

- **Rapid development.** IBM Cognos 8 Planning lets you build a model in days – not months. You can import data definitions from other systems to further accelerate the process.
- **Sophisticated modeling.** Cross-functional planning processes rely on complex logic and dependencies. Built-in modeling capabilities let you speed development of sophisticated models that reflect the uniqueness of your business.
- **Flexibility.** The modeling flexibility lets you change your business logic and see the impact in real time.
- **No programming.** Just as important, IBM Cognos 8 Planning doesn't require mastery of an arcane programming language. Control of the application remains with planning professionals – not IT technicians.



The management cycle: Automate and integrate a performance management cycle to close the gap between strategy and execution.

2. Align the enterprise: Plan

Once you have identified a strategic direction that gives you competitive advantage, you need to get everyone on the same page. This means cascading targets from top to bottom across the organization and exploring/validating those goals. When you align the enterprise, you solidify a corporate plan. You can ensure individual targets properly reflect the plan and that individual actions, decisions, and processes – enterprise execution – are synchronized and compensated.

How IBM Cognos 8 Planning helps you align the enterprise

IBM Cognos 8 Planning makes it easy to apportion corporate goals across individual units and establish their impact on specific teams and employees.

- **Breakback.** This unique capability automatically spreads high-level targets across any profile – previous-period actuals or projected seasonality, for example – and across multiple dimensions, such as products, customers, territories, or time periods, without needing to define special business rules.
- **Multidimensional analysis.** IBM Cognos 8 Planning has long been recognized as the leader in multidimensionality, the ability to compare and manipulate data across any facet of your business. This makes it easy, for example, to compare targets among teams and individuals with current and historical actuals and with external benchmarks.
- **Unified view.** IBM Cognos 8 Planning provides a unified view of your plan that connects with your key metrics and the underlying information. With one version of the truth, you can spend your time on making decisions, rather than debating data.

3. Communicate, coordinate, and commit: Budget

Once you have defined the targets, you are ready to make the plan operational by breaking it down into the activities, decisions, and initiatives needed to achieve your goals. In this phase, you distribute the individual plans and reach out into your organization to get bottom-up input from people who are on the front lines in every important area of the company – such as sales reps, production managers, marketing directors, and HR executives.

Their role is to validate your model and your plan by providing bottom-up contributions specific to their own areas of responsibility – what do they think they can achieve? You need to gain their commitment and ensure their plans are aligned with enterprise objectives.

One of the keys here is that individual contributors have clearly defined objectives and targets that are specifically related to the strategic goals of the organization. For example, engineers understand that competitive R&D spending trends will dictate their budgets. Virtually every engineer believes he or she can build better products for less money than their competitors – if they can see it in those terms.

Until recently, the ability to divide a strategic plan into discrete operating plans for every business element was nearly impossible. The technology was lacking to create and maintain models in days – not months – for thousands of tightly linked operations.

With sophisticated enterprise planning software, you can achieve this with the automated creation of thousands of personalized plans – pre-loaded with actuals, if appropriate – for each business entity. This step ensures that every executive, manager, and knowledge worker understands the part they must play. The game plan is translated into specific, actionable plans that share a common purpose and a common language and are specific to each operating unit – not a generic template that inhibits understanding and accuracy.

How IBM Cognos 8 Planning helps you communicate, coordinate, and commit

IBM Cognos 8 Planning is uniquely suited to supporting the broad participation that successful enterprise planning requires through scalability, simplicity, and structure.

- **Unsurpassed scalability.** Server applications cannot handle the calculation intensity that typically occurs in the days leading up to a deadline. But the intelligent, distributed processing of the IBM Cognos solution leverages a powerful local Web client that provides and maintains fast response for thousands of concurrent users. And, the look-and-feel that spreadsheet users are accustomed to encourages confidence and participation.

- **Web-based, personalized data-entry templates.** These easy-to-deploy templates require minimal training and enable controlled analysis. What's more, contributors need only enter data that is relevant to their functional areas – with no confusing financial terms and needless frustration.
- **Dynamic linking.** Individual components of the plan can interact in real-time, providing consistency in detail.
- **Workflow management.** IBM Cognos 8 Planning can automatically track the entire planning process and give you the status of every participant. That means your planning cycle proceeds at the speed of the fastest contributor, not the slowest. It also promotes helpful dialogue among participants, further shortening planning cycles.
- **NetPlanning.** IBM Cognos 8 Planning can foster on-the-fly collaboration over the Web, even involving external contributors and other participants not normally involved in planning and performance management processes.

Case study

Industry: Pharmaceutical

Profile: 2,850 users across R&D division

Current deployment:

- Project financial planning
- Project resource planning
- ROI/TCO analysis
- Portfolio innovation analysis
- Product lifecycle management analysis

Synopsis: With this enterprise, IBM Cognos 8 Planning is deployed to hundreds of users at the detail project level using a hybrid activity-based costing model focused on developing and managing cost-to-market plans for products through their lifecycle. Plan preparation cycle times were reduced by 70 percent, iterations were trimmed from ten to two, and an 18-month rolling forecast became the standard. Leveraging the IBM Cognos platform has allowed this company to create sustainable competitive advantage around its R&D spending effectiveness and drugs lifecycle management.

4. Avoid surprises: Monitor

Having identified performance goals, created a game plan, and translated it into actionable plans and budgetary parameters, you need to track progress and monitor day-to-day operational performance, so you always know where you are and how you are doing.

As part of enterprise planning, you create a set of interconnected performance indicators that make goal-driven metrics available to thousands of employees across your organization.

Such metrics are easily understood and make clear how individual decisions and actions fit into the strategic plan and contribute to meeting operational goals. Accountability is enhanced as well, because there's no doubt about organizational priorities: who is responsible for what and when.

How IBM Cognos 8 Planning helps you avoid surprises

IBM Cognos 8 Planning offers next-generation performance monitoring technology that is fundamental to enterprise planning.

- **Performance monitoring.** IBM Cognos 8 Planning enables you to communicate plans and targets in terms of actionable, relevant, meaningful, individual performance goals and provides easy-to-understand answers to the question, "How am I doing?" Any quality assurance or performance methodology is supported.
- **Metrics management.** IBM Cognos 8 Planning lets you pull together data from disparate sources into a coherent metrics framework. Metrics from a central source can be readily defined, configured, shared, and linked, and user access is quick and easy.
- **Performance edge.** IBM Cognos 8 Planning helps managers navigate performance problems by the very processes which drive them. Adjust and execute your strategy quickly without losing momentum. Discover how performance in one metric affects outcomes in another.

Case study

Industry: Retail

Profile: 2,100 users, including store managers

Current deployment:

- Financial planning
 - Corporate
 - Store-level
 - Rolling forecast
- Capital expenditure planning
- Headcount and compensation planning

Synopsis: This leading retailer uses IBM Cognos 8 Planning for expense planning, capital budgets, and headcount staffing, and integrates with multiple financial and merchandising management systems. Store-level plans created unprecedented collaboration that reduced operating expenses by more than \$10 million in the first year of planning on the IBM Cognos platform.

5. Understand breaking news: Analyze

In many organizations, this step is where enterprise planning often ends – and it shouldn't. Ideally, all of these detailed, cascading plans should be “living documents” that are regularly updated based on analysis of your current operating performance. Forecasts should be refreshed on a continuing basis, becoming rolling forecasts that give a recurring 12-18-month window into future activity.

An important part of this refresh cycle is analyzing results and fine-tuning your plans and forecasts. You can change the game plan, if necessary, to achieve greater accuracy in meeting performance goals.

How IBM Cognos 8 Planning helps you understand breaking news

IBM Cognos 8 Planning taps into the real-time information that enables continuous adjustments to the plan and greater visibility into future operating performance.

- **Immediate insight.** IBM Cognos 8 Planning acts as your organization's central nervous system. It gives you ready access to the latest data to see how it compares to plan, as well as the ability to analyze performance information in a way that lets you understand the underlying data.
- **Powerful analysis.** IBM Cognos 8 Planning adds value and context to your source data through methods ranging from simple calculations, to multi-metric and graphically rich dashboards.
- **Broad data access.** IBM Cognos 8 Planning enables you to integrate plan and forecast data with comparatives from other systems for instant visibility to variances.

6. Manage the gaps: Report

Naturally, there will be gaps between corporate goals and individual opinions about what can be reasonably achieved. Are the targets wrong – or do contributors need to modify their submissions? Through reporting, analysis, and planning iterations, you create detailed performance plans that support and align with the strategic goals of the organization. And you can do this in a cross-functional way – not in silos.

Once those contributions are complete, higher-level managers review the submissions. Traditionally, review cycles have never been an optimized step in the overall planning process – they've been more of an afterthought. However, a senior manager collaboratively discussing the goals of the organization with members of his or her team – and helping them optimize their operations to align with those goals – is one of the foundations of enterprise planning. Executed well, a review cycle is extremely beneficial to the process. Executed poorly, it becomes a chaotic and disjointed exercise that lengthens the cycle while making it less effective. A key reason for “review failure” has been the lack of a technology platform that integrates all plans so that as one plan changes, it automatically consolidates into the total plan – and aggregates “sideways” to all the other plans it affects.

Case study

Industry: Telecommunications

Profile: 1,500 users enterprise-wide

Current deployment:

- Sales planning
 - Forecasting
 - Pipeline analysis
- Marketing planning
 - Strategic and tactical
 - Market research
 - Product lifecycle planning
 - Portfolio analysis
- Purchasing/production planning
 - Inventory planning
 - Capacity planning
 - Real estate strategy
- HR planning
 - Strategic and tactical
 - Call center support planning

Synopsis: After deploying the IBM Cognos planning solution in just eight weeks, the company enjoyed one of the most dramatic returns of any IBM Cognos customer, improving its working capital position by \$1.5 billion. More significant were the changes in the company's culture, as planning has been transformed into a core competence. The tactical benefits of adopting enterprise planning – a high degree of collaboration, a single repository of planning and performance data, real-time analysis and reporting – have fostered a culture of accountability and forged a strong link between plans and performance.

As a result, most organizations' review cycles are dictated by aggregation cycles. Individual managers and supervisors must work according to a standard schedule instead of one optimized to their own business needs. Worse, it means that most managers and supervisors are – in effect – constrained by those who are late in completing their plans and forecasts: Aggregations can't be performed until the last person does his or her work, which naturally causes many contributors to wait until the last minute to complete their submissions. It also drives a fixed number of review cycles – which may be too many, or too few for individual groups.

How IBM Cognos 8 Planning helps you manage the gaps

IBM Cognos 8 Planning provides comprehensive Web-based reporting features that let you format and present data in clear, meaningful ways. Alerts and exception reports help you spot variances early and eliminate the need to wade through pages of irrelevant data. IBM Cognos 8 Planning also manages currencies, adjustments, and multiple hierarchies as well as sound accounting principles that govern consolidation.

- Data visualization. IBM Cognos 8 Planning provides the industry's leading, high-quality, high-impact presentation capability.
- Alerts and notifications. Pinpoint the issues with alerting and exception-based reports.
- Managed reports and queries. IBM Cognos 8 Planning delivers the reports users need and superior Web-based ad hoc query for further exploration. Financial reporting is easy to use and quick to deploy.

7. Realign and re-focus: Re-forecast

The final step... is also the first step. Using your analysis and reports, you can align with the changes in your business environment. You can achieve a simple, but elusive goal in planning and performance management – the rolling forecast. By supplementing – or even replacing – your annual budget with a rolling forecast, you reinforce planning as a core competency in the organization, a key management skill to be respected and honed through frequent application. In turn, you benefit from increased accuracy and the earliest possible visibility to future operating performance. It allows you to explore corrective actions where necessary, and keeps you aligned with your corporate objectives.

How IBM Cognos 8 Planning helps you realign and re-focus

By bringing information for monitoring, analysis, and reporting to people across your organization, the IBM Cognos solution provides greater visibility into future operating performance and lets you work with rolling forecasts.

- **Real-time aggregation.** IBM Cognos 8 Planning aggregates all plan and results updates. There's no waiting to see the impact of new forecasts and plan contributions.
- **Work offline.** Plan where and when you want to, without a network connection.
- **Online administration.** IBM Cognos 8 Planning lets you change data structures, user access rights, model parameters, and more without taking the system offline. You have the 24x7 availability that global enterprise planning implementations require.

Conclusion

Ultimately, all the plans, processes, and technology do not matter if the company cannot achieve reliable financial results, rapid organizational realignment, and smarter business performance. With its unique combination of target setting, planning, measurement, analysis, and forecasting, IBM Cognos enterprise planning holds the potential to dramatically improve the operation of any company.



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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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