



Performance management for a challenging economy

Contents

- 3 The requirements**
- 5 Basic performance questions for all information sweet spots**
 - Modeling
 - Business analytics
 - Plans and forecasts
 - Tracking leading indicators
- 9 Sweet spots in practice**
- 12 Conclusion**
- 13 Appendix – IBM Cognos software for performance management**

Abstract

In a challenging economy, the price paid for bad decisions can be dire. Even average decisions can cost your organization dearly. See how information sweet spots and performance management can help you not only weather the storm, but be better prepared to steer your way with greater agility into the upturn.

The decision-making challenge

In many of the world's leading economies today,

- Customer demand is declining
- Companies face constraints on credit and capital
- Industry structure can change significantly (and quickly) in crisis.

Such conditions may drive organizations into a “bunker” mode, especially those at the top of their industries. Both experience and history show that this reaction can be a mistake. In a recent report¹, McKinsey & Company looked back to the recession of 2000-01 to identify which companies faltered and which took advantage of sluggish times to make gains on their competitors. They concluded that “nearly 40 percent of leading US industrial companies toppled from the first quartile in their sectors during the 2000-01 recession, and a third of leading US banks met the same fate.”

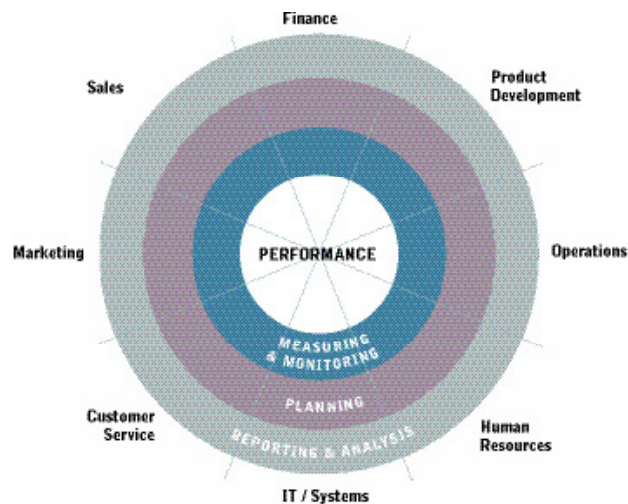
In turbulent times, an enterprise has to be managed *both* to withstand sudden blows and to take advantage of unexpected opportunities, says management guru Peter Drucker. What can help you meet both sides of this management challenge?

The requirements

Choosing the right strategy, executing against it, and ensuring you're on the right path require ease of access to both information and insight. You need a complete and accurate picture of how your organization is performing. You need the ability to understand past performance, get an immediate pulse on what's happening now, and both plan and model the future to gain some predictability and control over it.

These are not new requirements for business. But in challenging economic times, both the margin for error and the size of opportunity's door shrinks. A bad decision in good times may cost you some market share. A bad decision in bad times may cost you the whole market.

IBM Cognos software can deliver the past-present-future information decision-makers need to make better decisions. We have worked with customers and independent experts to develop and champion useful and integrated business and information technology approaches such as the Performance Manager framework. The Performance Manager book has been delivered to over 80,000 people, versioned for five industries, and translated into four languages.



Use measuring and monitoring, planning, and reporting and analysis software across the departments that deliver performance for your organization.

The Performance Manager framework helps organizations identify information sweet spots and underlines the business value such sweet spots offer. Information sweet spots are the planning, scorecard, analysis or report elements that give managers the pulse of their organization, as well as pointing out the places to act for maximum benefit.

In a challenging economy, these information sweet spots are exactly the places you need to monitor and act upon to make the decisions that can address problems before they occur and open your organization up to new opportunity. *Who are your most profitable customers? What do you have to do to keep them? If you drop X service, will you lose Y customers?* You need the answers to these questions; you need to understand these variables in your value equation.

While there are many potential information sweet spots, key customers among the Fortune 500 tell us that in a challenging economy the most valuable ones relate to:

- Improving profits
- Cutting costs
- Managing risk
- Finding new opportunity.

Sweet spots in these areas can help you identify the short term interventions that can have particularly fast and high payback in turbulent times. They can also create momentum for the transformation into a company capable of competing in this new economic reality. The task is not just about addressing today's challenges. "New leaders emerge who win not by surviving the storm, but by changing the game," says Sam Palmisano, CEO of IBM.

Changing the game requires process transformation that infuses intelligence into decision-making and management systems. It is more than simply improving processes with additional speed and capacity. Information sweet spots deliver more intelligent decision-making, and that, in the end, is the key ingredient for better performance management in good times and bad.

Basic performance questions for all information sweet spots

Information sweet spots are “pressure points” where the application of data and decisions can have the most impact. They exert this impact because they lead you to answer fundamental business questions: *How are we doing? Why? What should we be doing?*

Scorecards and dashboards let you monitor the business with metrics to answer *How are we doing?* Reporting and analysis lets you look at historic data and understand trends, spot anomalies and understand the *Why?* behind performance. Planning and forecasting help you establish a reliable view of the future and answer *What should we be doing?* Integrating these capabilities together lets you anticipate and respond to changes happening in your business. This is performance management.

IBM Cognos software offers all of these elements of performance management (*see appendix on PM technologies*). In a challenging economy, certain capabilities of this integrated technology story can be more significant, particularly around the need for organizations to stop reacting, and start *proacting*. Proactive decisions applied to the most relevant information sweet spots are a powerful, data-driven way for your organization to survive and thrive in tough economic times.

How do you become more proactive? Specific capabilities of performance management software enable this.

- Modeling events and decisions...before they happen
- Using business analytics
- Building more accurate plans and forecasts
- Tracking leading indicators, not just lagging indicators.

Modeling

In a challenging economy, events affecting the playing field increase in frequency. Yesterday's strategy may no longer make sense given sudden changes in the market, customers or competitors.

You cannot anticipate every occurrence. However, you can model the likely or most-influential scenarios, so you can be ready if they occur. If your major supplier goes bankrupt, what's your plan? What about a major competitor? Or customer?

Anticipating and working through scenarios and new business models sharpens your decision-making. It may buy you hours or days of advantage over others. You can act more quickly, and with confidence.

Business analytics

While you can model many events before they happen, you cannot model everything. How do you gain similar business agility in the face of unforeseen events? To shorten decision cycle times financial planners, controllers, CFO, and other business managers need planning and analysis tools. These tools must let them change input values and recalculate on-the-fly so they can work through solving business problems without waiting for information.

This is more than simply looking at past data; it means incorporating historical information with projections. It also means being able to share the same model with people in other departments or regions.

Business analytics solutions that provide this powerful capability tend to have:

- Concurrent read/write for collaborative planning processes
- The ability to create parallel scenarios and assumptions with on-demand recalculation
- Instantaneous availability of model or data changes
- Multi-dimensional analysis of business information.

Typical spreadsheet-based systems redline when faced with these demands. They do not enable easy access to data, nor easy collaboration – both of which are critical for agile decision-making.

Plans and forecasts

Your organization likely has strategic plans, budgets and forecasts. In a turbulent economy, organizations pay even more attention to these financial tools because of the need to report accurately, and anticipate results. Being able to project more confidently, and further out into the future, can be a competitive advantage.

What makes your planning effort or forecast better than your competitors? For Finance professionals, a plan or forecast's quality is determined by its accuracy. The more accurate plans and forecasts depend on proximity and frequency. Better plans happen when:

- Managers who are closer to the frontline actively build the plan or forecast, because they have more direct access to and understanding of the real conditions and implications of the numbers.
- Plans are rolling rather than fixed, with more frequent and easy-to-do updates, because they more accurately reflect what's happening today and the conditions of the moment.

The screenshot displays a financial software interface with the following data tables:

Revenue and Margin Table:

	Feb	Mar	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep
TOTAL PRODUCTS	5,157	4,125	21,333	3,609	3,095	4,125	10,828	5,156	7,734	8,248
TOTAL MEDIA	4,629	3,703	19,748	3,241	2,777	3,703	9,721	4,628	6,942	7,406
DVD Video	2,874	2,298	14,482	2,011	1,724	2,298	6,833	2,873	4,310	4,596
CD Audio	1,632	1,306	4,897	1,143	979	1,306	3,429	1,632	2,449	2,612
Software	123	99	370	87	74	99	259	123	184	197
TOTAL ELECTRONICS	425	340	1,275	296	255	340	891	425	637	678
PDAs	39	32	118	27	23	32	82	39	59	62
Computers	327	261	979	228	196	261	685	326	490	522
MP3 Players	59	47	177	41	35	47	124	60	88	93

Expenses Table:

	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
HEADCOUNT	7	7	7	7	7	7	7	7
6000 Salaries	44,650	44,650	44,650	133,950	44,650	44,650	46,132	135,432
6010 Benefits	8,930	8,930	8,930	26,790	8,930	8,930	9,226	27,086
6020 Cell Phones	450	450	450	1,350	450	450	450	1,350
6099 PAYROLL	\$54,030	\$54,030	\$54,030	\$162,090	\$54,030	\$54,030	\$55,808	\$163,868
6100 Insurance	6,250	6,250	7,791	20,290	6,250	6,250	6,250	18,749
6110 Office Equipment	5,060	5,060	5,060	15,181	5,259	5,060	6,088	16,407
6120 Office Supplies	1,018	1,018	1,018	3,054	1,018	1,018	1,018	3,054
6130 Other Expense	820	820	820	2,460	820	820	820	2,460

Summary Table:

	Jun	Feb	Mar
4999 Gross Revenue	\$2,604,675	\$1,944,613	\$1,549,696
5999 Cost of Sales	2,251,691	1,700,044	1,357,726
Gross Margin	\$352,984	\$244,569	\$191,970
6099 Payroll	54,030	54,030	54,030
6199 Office Expense	23,594	23,594	25,135
6299 Travel	33,491	33,491	33,491
6399 Occupancy	19,768	19,768	20,279
6499 Marketing	30,142	16,791	16,791
6599 Depreciation	34,398	33,658	35,971
Total Expense	\$195,422	\$181,332	\$185,698
Net Profit	\$157,561	\$63,236	\$6,271

Build and share plans across departments that can be both updated by the frontline manager and controlled by Finance. Get the ease of spreadsheet systems, without the challenges of managing disconnected spreadsheets.

Tracking leading indicators

Scorecards give you the pulse of the business, an accurate gauge on the now. Is the sales pipeline on target? A simple red, green or yellow, or another intuitive system can tell you where you are on key metrics.

However, knowing today that your sales pipeline is red may be too late to do anything about it. Leading indicators, applied to key metrics, can give you an early-warning system. Early warnings let you put other remedial efforts in place to influence key metrics.

Using Sales pipeline as an example, you could ask your sales team to log their sales visits. If your sales team is not making sales visits, they're unlikely to turn prospects into pipeline. If today's Sales Visits are down precipitously, you can anticipate that tomorrow's Sales Pipeline will be too. Seeing this leading indicator lets you take action:

- Drilling into the data to get color on the problem – Is it regional, or by product, or by size of customer?
- Planning marketing support activities for sales
- Discounting products or creating package deals.

Sweet spots in practice

Customer profitability continues to surface with IBM Cognos software customers as a key sweet spot in a challenging economy. Keeping your best customers and identifying prospects who “look like” your best customers are critical.

You can set targets based on your goals and metrics in customer profitability. You can monitor your success by looking at how you measure up against your targets. Further, you may dive into your results to find the factors driving performance. Some common measures for customer profitability include:

- **Average customer profit:** What is the average value of this customer segment in terms of company profit?
- **Net sales:** What is the sales revenue for this product group after discounts and standard costs?
- **Customer acquisition and retention cost:** What is the average cost of acquiring a new customer versus up-selling to an existing customer?

Understanding **Customer Profitability** is vital to your business. You need to know which customers and products are making the largest contributions to the bottom line.

By applying expense and allocation formulas, you can determine the net value of each product group or customer segment. Armed with this information, the sales force will have a better understanding of its profit priorities and know where to direct activities to bring in the highest returns.

With the customer profitability sweet spot, you can set planning goals and scorecarding metrics for these elements:

- Average customer profit, lifetime profit, and net profit (\$)
- Net sales (\$)
- Gross profit (\$ and %)
- Customer acquisition and retention cost (\$)
- Sales revenue (\$)
- Units sold (#).

Most importantly, you can analyze these goals and metrics by a number of dimensions to find the hidden gems in the data underpinning performance management:

- By different industries
- By where your customers are
- By the time of year, quarter, month, week or even day
- By segment of the market
- By your Brands and Product line
- By your Sales territory and channels.

Understanding customer lifetime profitability is vital to a business. It focuses the organization on the value of the long-term customer. Customer/product profitability is a powerful tool that is used at senior levels across your organization.

- **Finance:** What expense and allocation formulas provide net profit?
- **Marketing, Sales and Customer service:** What is the long-term value of our most profitable customers and how do we put that knowledge into action?
- **Product Development and Operations:** What effort and activity do these customers and products cost?
- **IT:** What information is required for us to understand the customer and product profit priorities?
- **HR:** Is staffing reallocation required for us to focus on delivering what's required to serve and benefit best from our most profitable customers?

Conclusion

“A company that has insight into its operations and its customers has an advantage over companies that don’t,” says John Hagerty, VP and research fellow at AMR Research. “That’s especially true during times when other indicators might suggest pulling back on technology investment.”²

This capability can translate into a crucial differentiator during times of economic stress. Consider the case of Envision Credit Union, a Tallahassee-based credit union with over \$200 million in assets and more than 30,000 members. After investing in IBM Cognos software in early 2007, Envision noticed a decline in demand for automobile loans. This awareness allowed the organization to focus on other investments, such as mortgage lending and credit card portfolios.

At the same time, however, Envision decided against issuing any sub-prime loans – a decision that has allowed the organization to remain on stable financial ground at a time when many of its peers are struggling. Dan McGowan, senior VP and CFO of Envision, credits much of this foresight to the organization’s investment in business intelligence. “It’s better not to wait until you’re faced with a crisis before doing something progressive,” he says. “A well-rounded BI program should provide enough good information to offer actionable insight, whether the trend is up, down, or flat.”³

IBM Cognos performance management software lets you transform raw data into business intelligence and better decisions. Better decisions will help you successfully navigate challenging economic times.

Appendix – IBM Cognos software for performance management

Good decisions are the building blocks of great business performance. IBM Cognos performance management integrates software, services, best-practice, and partners. The result: a common understanding and accountable actions based on answers to your performance management questions:

- ***How are we doing?*** Measuring and monitoring performance with scorecards and dashboards tracks your key metrics.
- ***Why?*** Reporting and analysis let you see data, gain context, understand trends, and spot anomalies.
- ***What should we be doing?*** Planning, budget, and forecasts let you set and share a reliable view of the future.

Scorecards, Dashboards and Financial Consolidation

Scorecards, dashboards and financial consolidation software help companies answer the fundamental performance management question *How are we doing?*

Scorecards distil information into a small number of metrics and targets.

- **Deliver at-a-glance information** – Stop sifting through a stack of reports to find what's right...or wrong. Scorecards show you immediately how the company performs against targets you set.
- **Communicate strategy and targets** – Metrics show everyone what's important, what's expected and how you're doing.
- **Increase accountability** – Let people see the strategy, understand their part in making the strategy succeed, and give them metrics to measure their success.
- **Connect departments** – Scorecard metrics, like your strategy, are interdependent. See how your red metric affects others.

Dashboards translate complex information into high-impact presentations using gauges, maps, charts and other graphical elements.

- **See changes** – Gain a dynamic view of business conditions with timely, refreshed data.
- **Intuitive**– Provide an at-a-glance understanding of information for faster action.
- **Understand what’s behind the picture**– Drill through graphs for more detail.
- **Align decision-makers**– Unite data from different departments for the complete picture.

Financial consolidation lets you consolidate multiple diverse ledgers into a single, common chart-of-accounts structure. Reduce your consolidation, close and reporting cycles by days or even weeks.

- **Integrate financial data** – Add pre-built rules and calculations to populate plans or scorecards.
- **Manage complex business models** – Multinationals can evaluate financial results across countries, currencies and legal entities.
- **Gain alignment** – Improve planning and forecasting with a single version of financial facts.
- **Easy-to-use** – Access information through a familiar Excel interface for easy data collection or distribution.

Business Intelligence

Reporting and analysis software helps answer the “*Why*” behind your performance.

IBM Cognos 8 Business Intelligence software lets you author and distribute every report type: high-volume production reports, individual ad hoc queries, widely distributed business reports, centrally authored reports with self-service customization, and more. Draw on any data source; rely on a single metadata layer.

The result: higher user adoption, better decisions across the organization and the ability to respond to threats and opportunities.

- **Gain alignment with a single, reliable version of the truth** – Common data definitions means you spend less time debating the numbers and more time deciding what to do.
- **Connect with all data sources** – Don't limit yourself with proprietary reporting packages that only do part of the job. Author reports across multiple data sources. Get a head start on integrated performance management.
- **Make the right decisions...faster** – Timely reports and self-service reporting give you the information you need, when you need it.
- **Meet the information needs of all users** – Deliver information over the Web, on mobile devices, through common interfaces like Microsoft Office. Give people information the way they want to see it.

Budgeting, Planning and Forecasting

Budgeting, planning and forecasting software from IBM can free the office of finance from the burden of spreadsheet-based processes. Cognos solutions offer specific strengths to meet the diverse needs of any finance organization.

For high-participation planning within a structured workflow, IBM Cognos 8 Planning offers

- Input from hundreds – or even thousands – of cost-center managers
- Centrally controlled, auditable, transparent workflow
- Driver-based planning, budgeting and forecasting.

For consolidating, viewing and editing large volumes of multidimensional data within large, complex hierarchies, IBM Cognos TM1 offers:

- Real-time analytics for profitability, sales mix and price/volume variance
- Interactive, rules-based business modeling
- Flexible rolling forecasts to make your company more agile.



© Copyright IBM Corporation 2009

IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

Produced in Canada
March 2009
All Rights Reserved.

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.

For further information or to reach a representative: www.ibm.com/cognos

Request a call

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

IBM, the IBM logo and ibm.com are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at www.ibm.com/legal/copytrade.shtml.

References in this publication to IBM products or services do not imply that IBM intends to make them available in all countries in which IBM operates.

Any reference in this information to non-IBM Web sites are provided for convenience only and do not in any manner serve as an endorsement of those Web sites. The materials at those Web sites are not part of the materials for this IBM product and use of those Web sites is at your own risk.

Endnotes

- 1 Richard Dobbs, Tomas Karakolev, Rishi Raj, "McKinsey on Finance: Perspectives on Corporate Finance and Strategy", Number 23, Spring 2007, McKinsey & Company.
- 2 Judith Lamont, "BI, in good times and bad", August 31, 2008, KMWorld, <http://www.kmworld.com/Articles/Editorial/Feature/BI,-ingood-times-and-bad-50457.aspx> (accessed September 25, 2008).
- 3 Judith Lamont, "BI, in good times and bad", August 31, 2008, KMWorld, <http://www.kmworld.com/Articles/Editorial/Feature/BI,-ingood-times-and-bad-50457.aspx> (accessed September 25, 2008).