Journal of Management Excellence: Creating Value, Part II
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Letter from the Editor

Thank you for taking the time to read the fifth issue of the Journal of Management Excellence (JME). The theme of the fourth issue, creating value, had so many facets that it was impossible to deal with them all in a single issue. In fact, as creating value is the bottom line for enterprise performance management (EPM), it could continue to fill the JME for many issues to come. While we will not do that, we have dedicated this fifth issue to creating value.

The following numbers are important in reading this edition: 2.4, 5.13, and 3.

2.4 is the number of times that world-class EPM companies outperform others in terms of equity market return. I wouldn’t dare imply there is causality: if you adopt EPM, your return improves. However, the correlation is striking. There are many possible explanations of why this is true. For example, EPM helps you take or maintain control and this improves return. Alternatively, a good return enables you to invest in EPM much more. The article from Tom Willman of The Hackett Group indicates that this explanation is less likely. A third explanation is that simple good management explains both the success with EPM as well as a higher return.

5.13 (on a scale of 1 to 10) is the score of Oracle’s first EPM index. Steve Walker provides commentary around the most important findings. Jim Franklin introduced the concept of uncertainty management in the first edition of the JME, and now he revisits the topic. Tony Politano describes how analysis chains can help create value. Ron Dimon of Business Foundation, has contributed a very detailed article on how to build the business case for creating value with EPM.

And what about the number 3? 3 is the number of articles that partners and industry experts contributed to this JME issue. In addition to outstanding contributions from The Hackett Group and Business Foundation, Wayne Eckerson—the director of research at TDWI—wrote a guest commentary on the build versus buy decision and explains how both options can create value.

Cranfield University School of Management, Balanced Scorecard Collaborative, CapGemini, Deloitte, Decision Management Solutions, The Hackett Group, Business Foundation, TDWI… This is an impressive list of contributors over the last five issues, but I’d like to see it grow even more. If you are interested in contributing, please contact me at toby.hatch@oracle.com.

Toby


For more thought leadership, visit www.oracle.com/thoughtleadership.
World-Class EPM Drives More Than Twice the Shareholder Return

Executives can more than double their company’s equity market returns and drive a higher stock price, larger dividends, and significantly lower operating profit volatility by improving enterprise performance management (EPM) capabilities—including planning, budgeting, forecasting and reporting—to world-class levels. Yet research done by The Hackett Group shows that typical companies are often “flying blind” due to poor EPM performance. Despite spending more than twice as much on planning and performance management processes as world-class companies and operating with more than double the staff levels, typical companies’ planning functions fail to deliver timely, relevant insights into their customers, competitors, market, and business environment. Therefore, executives at these firms are less able to align operational activities to support strategic corporate goals.

Twice the Spending, Half the Return

Hackett’s research—analyzing detailed benchmark findings from more than 200 large companies—found that world-class EPM organizations deliver 2.4 times the industry-relative, three-year average indexed equity market returns of typical companies. World-class EPM organizations also perform more consistently, with a year-over-year operating profit volatility (over a three-year average) that is significantly lower than the 33 percent seen by typical companies. In addition, management at companies with world-class EPM organizations are 37 percent more likely to place a high degree of reliability on forecasting and reporting outputs than at peer-group companies, a key metric for assessing the value of analysis performed.

World-class EPM organizations achieve superior performance despite the fact that they spend only about half of what typical companies do in this area. As illustrated in Figure 1, world-class companies have 45 percent lower business analysis process costs as a percentage of revenue than typical companies and display 53 percent lower planning and performance management costs. They also operate with only 11.4 planning and performance management staff per US$ billion of revenue—57 percent fewer than peer-group companies.
World-class companies have significantly lower costs for business analysis, planning, and performance management.

Several Hackett-Certified Practices—including setting top-down budget targets—play critical roles in helping world-class EPM organizations outperform their peers. World-class organizations frequently use budget targets established by corporate rather than a traditional bottom-up approach. They also focus on materiality by reducing the number of budget line items, relying on 37 percent fewer line items than peer-group companies. They are 44 percent more likely to use rolling forecasts as part of the annual budgeting process or as a replacement for it.

The use of online tools to distribute or access standard reports is another proven practice leveraged by world-class companies. Enabling Web-based report viewing leads to information exchange in real-time and offers a competitive advantage in rapidly changing markets. In addition, world-class companies generate 53 percent fewer reports per US$ billion of revenue than typical companies.

These companies understand that by reducing complexity and focusing on the right operational business performance drivers, they can dramatically reduce the time and expense of report generation while providing decision makers with more relevant and timely information.

World-class companies use shareholder value analysis to develop strategic plans markedly more often than the peer group (83 percent versus 66 percent). Shareholder value analysis, which deals explicitly with the cost of equity capital in return calculations, provides a broader economic rationalization of business success. Incorporation of all costs, both explicit and implicit, into the decision-making framework ensures adequate returns to the providers of capital.

In general, world-class companies also incorporate more forward-looking analysis in their performance reports. Because rapidly changing market dynamics create risk, making decisions based solely on historical information is insufficient for assessing likely future performance. Hackett also found that world-class companies have non-financial information embedded in their performance reports more often than typical companies. They spend more time on proactive
analysis rather than explaining what happened in the past. This proactive bias translates into 31 percent more reports and commentaries that address future improvement actions or potential opportunities within the world-class group than among typical companies.

World-class companies are more likely to tie a comprehensive investment/debt strategy to the company’s overall operating and strategic plan. This is true for 83 percent of world-class companies versus 59 percent of typical companies. This allows world-class companies sufficient lead-time to procure the required capital to fund key strategic goals and operating plans. Companies should align investment/debt practices with the business environment that shapes the overall strategic plan.

One theme common to world-class performance is reduction in complexity, in both processes and technology. In EPM, this translates into world-class companies being 29 percent more likely to generate business performance reports from a single database. A single data repository reduces errors and allows managers to spend less time searching for data and more time on its analysis. More than half of typical companies report high use of spreadsheets for budgeting, while world-class companies use spreadsheets for budgeting 19 percent less often. Using spreadsheets for budgeting purposes opens the organization to potential process breakdowns. Spreadsheets increase the propensity for errors because users can too easily edit and change formulas and assumptions. As a result, using a spreadsheet as a standalone budgeting tool makes it difficult to create one single, reliable version of the truth.

Looking Ahead

Moving forward, Hackett expects further inroads to be made by streamlining and simplifying the budgeting process. World-class EPM organizations will continue to reduce the number of budgeted line items down to the critical few that are truly required for measuring an organization’s progress against strategic objectives. The leaders will further ensure that selected budget items articulate key business drivers while providing for a better understanding of current and expected performance. They will also slash budget cycle times through increased use of top-down target setting supported with technologies that provide on-demand access to information. The Hackett-Certified Practice of top-down target setting, supported by more evolved bottom-up planning, will dramatically accelerate the budgeting cycle. Further, with this approach, planners can more easily hit clearly defined targets and make the budget much more aligned with strategic objectives. Business-unit executives or leaders of corporate services (such as finance), will spend less time on multiple budget iterations. Top performers will further reduce the budget detail throughout the organization, ensuring driver-based planning and budgeting processes at the business unit and regional levels. Lastly, Hackett expects world-class EPM organizations to continue de-emphasizing the budget in favor of driver-based rolling forecasts. Closer cross-functional collaboration and the synchronization of different performance management models will lead to greater accuracy and reliability from the forecasting process.
Commentary: Creating Value By Doing More With Less

Sometimes we find interesting similarities between organizations and the human beings who build them. One similarity is that both tend to stick with accustomed behavior. And the longer that behavior is maintained, the harder it is to change it. I have to admit that the love handles on my hips are a visible result of unchanged behavior. They don’t hurt, but they do make me a little bit slower in sports. To remove them requires me to change and rethink my habits. A short term diet doesn’t help, as we all know. In principle, my energy input simply exceeds my energy utilization.

Transferring this metaphor to organizations, we can find a similar pattern. Resource input is mostly allocated based on following the habits of the past. It worked, ergo it will work. The tendency is to do more with more. In contrast a large body of recent studies demonstrates that leading organizations are able to achieve higher returns and, at the same time, reduce their working capital significantly and increase the cash flow. They do more with less. Across industries and irrespective of size, what these leading organizations seem to have in common is a systematic and comprehensive approach to implementing enterprise performance management (EPM) across the organization. The key is not only to get the insight to understand resource efficiency and effectiveness, but rather the way resource allocation is planned and budgeted. Tom William’s article in this issue explains this phenomenon.

I would like to go back one more step in the chain of management processes. The root cause of inadequate resource allocation often comes from wrong assumptions. It is not easy to predict what will happen in the future. And as recent history shows, many businesses had either over-optimistic assumptions or simply ignored alternative scenarios. Few companies are now able to proactively leverage the downturn and gain market share. Most companies can only be reactive and try to cope with the slump. Toby Hatch and Frank Buytendijk recently introduced the intriguing idea of scenario-based scorecards. This is a brilliant idea, in my opinion, to allow an organization to navigate changing market conditions and understand the impact of those changes and the need for adjustments to the business.

The “do more with less” approach could start with identifying the minimum resource requirements to survive in different scenarios. Then additional resources are allocated when they are needed and in activities where they deliver the best value. The challenging question is not why, but when. Timing is the essential problem. From inside the organization why something makes sense and creates value is often well explored. When to do it (or not to do it) depends on external conditions. The smartest companies tend to find the best timing.
The First Oracle Enterprise Performance Management Index Reveals Modest Achievement of Management Excellence

Oracle recently launched the first Oracle Enterprise Performance Management (EPM) Index\(^1\), in which businesses in Europe and North America are assessed on their ability to unite management processes and information systems to form a consolidated view of the business. On a scale of 0 to 10, these organizations attained an overall score of 5.13. The results of the study indicate a generally modest level of achievement, with much work remaining to be done in developing an accurate and up-to-the-minute enterprise-wide picture of current performance.

Headline Findings from the Research

While organizations are moderately well-placed for each area—with the exception of stakeholder engagement—fewer than a quarter (22 percent) feel that an integrated approach to the processes is necessary and more than a quarter (27 percent) think that each process can be regarded in isolation. Of the six areas researched, the stakeholder environment scores were the lowest. This indicates that the involvement of stakeholders in the performance of the organization is not being optimized. A high number of “don’t know” responses in this section indicates that many organizations were not even considering the needs of the stakeholders in their planning processes or value chains.

There is a high inverse correlation between a country’s index score and its regulatory environment: on the whole, the higher the index, the lighter the regulatory touch. The public sector and healthcare sectors, as the most highly regulated verticals, have the lowest overall EPM index scores. This inverse correlation demonstrates that businesses in countries and industries with demanding requirements for governance, transparency, and accuracy of information are more aware of the challenges in linking disparate systems and processes to provide an accurate picture of performance.

Most organizations are slow to respond to changes in market and business environments with just 13 percent of respondents believing themselves to be well placed in this regard. The UK is markedly the most responsive in using processes to deal with critical events.

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\(^1\) For more information, register at [www.epmtv.eu](http://www.epmtv.eu), where the EPM index is featured. EPMtv is an internet TV website dedicated entirely to enterprise performance management.
Use of business intelligence (BI) has a significant bearing on EPM achievement. Respondents who see BI as being an “important” or “major” tool for their organization have index scores of 5.3, whereas those who see it as being an expensive means of visualizing data scored 5. Those who see BI as a tool for historical reporting only scored 4.9.

A pervasive common data model is rare in business. While over half of respondents have a model or repository for some sets of data, only 1 percent of organizations had a common data model across all sets.

**Competitive Insight is Low**

The EPM index research reveals a surprising lack of insight into the competitive environment, particularly where the success of potential new products and the profitability of existing ones were concerned.

- Only a third of businesses rate their ability to assess the potential success of new product or service investments as six out of ten or higher.
- Only 12 percent of organizations consider themselves well placed (that is, score 7 or more out of 10) to determine profitability by product line, customer segment, market, channel, or other criteria.

Iberian organizations scored significantly lower than all other countries on all measures for the competitive environment, indicating that they have furthest to go in mastering these processes.

**Business Planning is not Responsive**

Only 13 percent of companies score well (7 or higher) in their ability to respond to business or market changes by modifying plans and budgets. There is a noticeable disparity across countries in the handling of risk and performance. France and North America have the tightest links between risk and performance assessments with results over 5.2. Italy and Iberia score the lowest at 4.5. The UK, with a score of 5.9, has a markedly greater ability than any other geography to react to events in critical business processes and create new processes as appropriate. Italy, which ranked second, displayed a score of 5.5, and the average across all markets was 5.3.

**Reporting Standards Vary Widely**

There is a large variation between countries in accounting across business units. France (index score of 5.6) and Benelux (5.5) lead the way in linking multiple accounting reports. Surprisingly, North America scores low with an index result of 5.1. Only 16 percent of businesses believe they are near a place where business units have visibility of their own accounts and where these are all interlinked to provide a consistent view of performance both for individual departments and the business as a whole. Three-quarters of organizations polled close their books within 10 business days of a financial review point. Over 11 percent of businesses have made substantial progress in
their journey to eliminate reliance on numerous, disparate spreadsheets and put in place tools and processes that guarantee the timeliness, validity, and accuracy of the final result. But 25 percent still feel overly constrained by the amount of spreadsheet use in the organization.

Views of the role and importance of BI are inconsistent, but only one-third of respondents see it as an important component in managing the business. This contrasts with the research results that show a positive link between regarding BI as an important or valuable tool and a higher index score. This suggests that many organizations need to revisit the way they use BI.

**Stakeholder Engagement is Low**

The section of the EPM index focused on stakeholder engagement ranked lowest of all six areas with a score of 4.8. A major factor in the low score was the large proportion of respondents who were unable to say whether investors and regulators had a transparent view of their strategy or whether their organizations had consistent and repeatable processes in place to engage stakeholders in discussions.

Only about 13 percent of organizations considered themselves to be well placed (7 or higher) for the production of a comprehensive sustainability report.

**Conclusion**

The findings of the study provide a good indication of the steps organizations across the globe need to take as they aim for management excellence. The starting point is to recognize that stakeholder engagement, the competitive environment, the business model, planning, operations, and reporting all play a coordinated role in providing a representative view of how the business is performing and how its performance could be enhanced. Bringing together the information held within these functions—and supporting this with the appropriate business processes—enables the business to act effectively on the insights gained. The next step is ensuring that there is a feedback loop to all of these processes so that the business can continually refine and enhance the efficiency and agility of its operations.
Guest Commentary: Closing the Loop

Thanks in part to the millennium bug, the year 2000 represented the crest of the wave of interest in packaged enterprise applications. But the date also marked the beginning of another wave in packaged software that is just now reaching maturity: packaged analytic applications.

Analytic applications are the business complement to enterprise applications, although they have taken a backseat to their operational brethren until recently. While enterprise applications run a company’s back- or front-office operations—for example, tracking accounts receivable, accounts payable, and general ledger activity in a finance department—analytic applications shed insight into the status and effectiveness of those operations. For example, a financial analytic application might help financial managers track performance against plan or assess the profitability of its customers and products, among other things. In short, companies use enterprise applications to run the business, but they use analytic applications to make sense of it.

It’s clear that packaged analytic applications create value. They shorten implementation time, decrease the cost of management processes and allow companies to benchmark themselves through standard performance indicators. The following recommendations can help you determine whether packaged analytic applications are suitable for your organization.

Starting from Scratch

If your organization has limited or non-existent business intelligence (BI) capabilities, then you should consider a packaged approach. If this is the case, assess whether the package supports all the functions you need at the depth you require. A package that is tailored to your particular industry will come closest to meeting your needs with minimal customization. Packages that are easily configurable are much easier to upgrade to new versions than packages that require you to make significant changes to fact and dimension tables and business views.

Mixed Environment

If your organization is run in a decentralized fashion and each department has significant autonomy to build and maintain its own systems, then a package might suffice as a departmental initiative. However, most executives eventually want an enterprise view of information and will charge a team to deliver it. Obviously, a packaged application offers a convenient and cost-effective way to deliver—provided you can overcome the politics and territoriality involved in
such a decision. Some departments, however, may have an advanced, custom-built BI solution with a well-architected and designed data warehouse that integrates data across departments. In this case, the packaged application may not win the battle, but it can be useful to highlight the cost efficiency (or lack thereof) of the roll-your-own approach.

Mature Custom Environment

When an organization already has an enterprise data warehouse, then a package may be suitable as a stopgap measure. The pressing needs of an individual department can be met even if the central data warehouse team does not have time to address their issues due to a backlog of projects. Sometimes, however, organizations decide to abandon custom built analytic environments in favor of packaged ones in an effort to standardize on a single vendor’s offerings. Usually, the vendor offers special financial incentives to encourage customers to adopt both their enterprise and analytic packages. In addition, the technical benefits of a unified environment—streamlining suppliers, simplifying data access and movement, and facilitating closed loop processing—may encourage companies to standardize on a single vendor.

Conclusion

Until recently, packaged analytic applications were not sufficiently mature or integrated to deliver promised benefits. But times have changed. Although packaged analytic applications are not suitable in every situation, they can help organizations minimize the time and money needed to implement a robust BI solution that scales seamlessly from a single department across an enterprise.
Managing Stakeholder Value With Analysis Chains

In today’s economic environment, the focus on managing performance is more critical than ever. Organizations must not only be able to understand, report, and react to performance challenges, they must also proactively manage their performance. It is no longer sufficient to simply have a good management reporting system. Organizations must step beyond reporting and must predict and understand what will happen as compared to what has happened.

Unfortunately, many organizations are unprepared for this change. They are challenged in understanding their performance capabilities from a business perspective. And they are equally challenged in being able to communicate and collaborate in the area of performance management.

Organizations need a focal point for performance—a group or person that lives and breathes performance and is accountable for guiding the organization and making sure performance becomes part of the culture’s DNA. Some organizations are addressing the challenge by creating groups such as the office of performance management (OPM) or by appointing a chief performance officer (CPO).¹

The Analysis Chain

A key tool for the OPM/CPO is the analysis chain.² There are many books and articles that acknowledge the importance of the relationship between leading and lagging indicators. Mark Graham Brown outlines and reviews many of the key concepts in his book. The key takeaway is that in business, as in nature, there exists a cause and effect relationship between metrics. The leading indicators are causal, and the lagging indicators are the resulting indicators.

Building on the leading and lagging relationship, there are two major dimensions that must be understood. These dimensions—understanding and availability—force the OPM and CPO to pragmatically manage performance and build of analysis chains.

The Understanding Dimension

Although a relationship between leading and lagging indicators may be known and/or modeled using a methodology such as strategy maps\(^3\), the degree of understanding of these metrics can vary greatly. For example, a pharmaceutical company may exhibit the following relationship: higher sales expenditures lead to an increase in new prescriptions that, in turn, increases revenue. The degree of understanding for how sales expenditures—the leading indicator—will fluctuate depends on the employee’s position and department. However, revenue—the lagging indicator—is widely known and reported in the annual report.

Definitions are not the only factors limiting understanding. Security and control concerns may restrict data access, leading to lower overall understanding within the organization. For example, payroll data is confidential information, yet individual salaries and net margin may be linked through a cause and effect relationship. The understanding dimension adds a dose of reality to strategy maps or to cause and effect relationships between leading and lagging indicators.

The Availability Dimension

Even when metrics are understood, their relationships modeled, and the degree of understanding known and planned for, there is still the question of how to access the data from existing systems. Many organizations go through a robust modeling approach, such as strategy maps, and quickly come to the realization that they have modeled a nirvana metrics model that cannot be feasibly implemented. This realization should not limit organizations to the data they know they can get. Instead, it can help them to realize their strategy by quantifying what data can provide immediate impact and what will require enrichment.

High-availability data is normally in a computer system. This can range from enterprise systems—such as enterprise resource planning or customer relationship management (CRM)—to line of business-specific systems for research and development or production. Low availability data resides in stand-alone environments such as spreadsheets, printed reports, or even in someone’s head\(^2\). The availability dimension provides a realistic view into what can be done with your existing system capabilities.


\(^2\) See blog entry “Hunch Support Systems” at http://www.chiefperformanceofficer.com/blog
An Analysis Chain Example

The combination of the leading and lagging relationship, understanding dimension, and availability dimension forms the basis for the analysis chain. In this example for a services company selling through a direct sales force, the following three metrics and their relationships are modeled in the analysis chain:

- **Margin percentage.** A high degree of understanding exists because it is a common financial term. There is a high degree of availability because the metric is tracked in the financial reporting system.

- **Number of invites to bid.** A lower degree of understanding exists because bids—specific to each sales organization—may not be well understood throughout the company. There is a high degree of availability because bid invitations are tracked in the CRM system.

- **Number of sales hours.** Because there is no consistent measure of sales hours that includes all sales activities such as prospecting, demonstrating, and entertaining, there is a lower degree of understanding. There is also a low degree of availability because the CRM system does not track sales activities to the hour.

**Analysis Chain**

The logic of this analysis chain is as follows: an increase in the number of sales hours leads to an increase in the number of bids that, in turn, leads to an increase in margin percentage.

There are thousands of analysis chains for any organization. The OPM or CPO must seek out the dominant analysis chains for the organization; understand the reality of what has standard meaning across the organization; direct the building of systems to access the available data; and then find a way to access the low availability data.

**Conclusion**

Managing performance across the organization—either through an OPM or a CPO—requires focus and accountability. An analysis chain that examines leading and lagging relationships with the understanding and availability dimensions, allows the OPM or CPO to understand the
metrics that matter most and the business and technical hurdles to delivering this information. Managing performance is not a task, but a continuous journey that each organization must take ownership and accountability for in a proactive fashion.
Building the Business Case for Return on Enterprise Performance Management Investment

What difference does enterprise performance management (EPM) make in your business? EPM can help you manage more efficiently, execute strategy more deliberately, and improve performance.

1. **Management efficiency.** EPM enables standard management processes that every company must do well such as budgeting, planning and forecasting, financial consolidation and statutory reporting, management reporting, decision-making, and profitability analysis. It allows companies to model, plan, analyze, and report financial and operational results.

2. **Strategy execution.** EPM can help close the loop between what you want to happen in the business (and how it should happen) and what actually happened (and why it occurred that way). EPM records and documents business model assumptions, constraints, and drivers. It connects those models into your annual operating plans, budgets, and forecasts. You can then monitor exceptional variances from actual to plan and program your EPM system to send the appropriate alerts. With this technology, you better understand the root causes of variance and can plug that corporate knowledge back into the business model and strategy. EPM ties it all together with a common business language and common master data to improve visibility, focus, and alignment.

3. **Performance improvements.** EPM can have a material impact on the bottom line, on the balance sheet, and on overall return on capital. It can improve visibility into the key drivers of value in the business by showing the cause and effect relationship of operational metrics on financial performance. With such knowledge, you can focus on the right things in the business. EPM brings agility to business models and organizational structures and adds a level of accountability for results.

**Business Impact**

Ideally, EPM should provide your department, business unit, and company with one or more competitive advantages in the areas of customer acquisition and retention, product innovation and profitability, people productivity, supply chain efficiency, marketing effectiveness, and overall sustainable execution of strategy. EPM is no longer led by IT. Rather, it is a joint effort between IT, finance, and lines of business that impacts all of these performance areas. The impact that EPM can have on your key business metrics is discussed in the sections that follow.
Revenue Growth
One of the first areas of the business to look at for financial performance and competitive advantage is revenue growth. There are a variety of ways EPM can improve revenue growth. These include enabling better focus on sales productivity through more relevant, expedient sales forecasting; increasing sales velocity by focusing efforts on the best selling products, bundles, and channels; and maximizing revenue by modeling product, bundle, and channel price mixes.

Operating Margin
Especially in a down economy—with the automatic reaction to cut costs—EPM can help ensure you cut the right costs and that the removal of those costs does not adversely impact profitable revenue or future market share. EPM can impact cost cutting in many ways. For example, understanding customer and product profitability allows companies to focus on marketing and selling the products that give the best return. Or think of quickly modeling NewCo scenarios in a pending acquisition and basing those models on historical data and actual constraints. Looking at scenarios by product line, by geography, or by customer segment can give a more accurate picture of available synergies and you can accurately set external expectations.

Cash Cycle
Accelerating your cash cycle gives you more confidence in your working capital, provides better opportunities for investments, and improves overall efficiencies. EPM efforts can include gathering and sharing information on days sales outstanding, days payable outstanding, and days in inventory. When delivered to the right people in the organization and tied to employee rewards, this information can have a positive impact on the cash cycle. Cash flow forecasting and working capital analysis can help lower the cost of capital, improve debt ratios, and reduce risk.

Asset Utilization
Ensuring that assets such as a plants, production lines, or equipment, are being employed in profitable activities is the practice of an efficient organization. EPM can impact your return on assets by allowing you to model capacity and ensure you have the right equipment and manpower available to produce a desired output or yield. Analysis of scheduled versus unscheduled repairs can show how effective your preventative maintenance programs are.

Business Case: The Office Furniture Industry
The potential impact of EPM on revenue growth, operating margin, cash cycle, and asset utilization is best illustrated using a real company scenario. I’ve chosen the office furniture industry. While the financial data is accurate—based on the last four quarters of publicly available information—the initiatives and scenarios are created. The following companies are used in the
analysis: Steelcase (NYSE: SCS), Miller Herman (Nasdaq: MLHR), Kimball International (Nasdaq: KBALB), and HNI—the parent of The HON Company (NYSE:HNI).

Steelcase reports the highest revenue growth versus their peers, while also reporting the lowest operating profit. So while their sales velocity is best in class, their margins are suffering.

One area worth looking at is selling, general, and administrative expense (SG&A). Steelcase is at 27.3 percent. Only HNI is higher at 28.5 percent and the other competitors are all around 19 percent. Because companies have a lot of leeway in booking some expenses to SG&A and some to cost of goods sold (COGS), the comparison may not be entirely apples-to-apples. That is, the difference in SG&A rates may show up in COGS. However, let’s assume they are comparable. Certainly, this is an area of opportunity that shows up when comparing operating profit: Steelcase is second to last in this peer group.

So how could EPM make help reduce SG&A at Steelcase? Here are a few EPM initiatives related to SG&A:

- Automating manual data entry, collection, normalization, and tie-out for reports and forecasts. Automation reduces IT and administrative costs—so long as after improving the inefficiencies, there is a corresponding reduction (or redistribution) of headcount.

- Adding better visibility to travel and entertainment costs (through a dashboard and variance alerting) and better accountability (through better analysis of the corresponding effect those costs have on driving new revenue).

- Reducing “at risk” customers and the cost of responding to such customers through more proactive forecasting, reporting, and analysis of customer satisfaction down to the incident level.

- Improving order fill rates by adding visibility to material supply—perhaps by including your trading partners in your BI initiatives and forecasts.

And how can EPM impact revenue growth at Steelcase? Even though they are best-in-class in this area, why rest on your laurels? A few revenue growth initiatives include
• Implementing a sales forecast that matches the business (or geography, product, customer segment) and connecting to the actual sales pipeline system can give more visibility into the quality of the forecast and problem areas. It can even let management focus efforts on selling more profitable products.

• Providing marketing with access to the sales forecast ensures they are promoting the right products, generating the right leads, and generally filling the pipeline appropriately.

• Allowing pricing analysts to run a variety of models to determine what price mix and bundles should have the most success in a particular market or with a particular channel increases the accuracy of your pricing strategy.

• Adding visibility to the new product introduction process and timeline will help sales and marketing ramp up faster and improve readiness when products are released.

Let’s take HNI as another example and look at potential ROI. HNI might set targets to improve revenue growth and SG&A by 2 percent each. We know that 2 percent is achievable—and conservative—in their industry. The improvements could come from the suggestions listed in the Steelcase example as well as from a combination of process and technology improvements delivered to the right people—all in alignment with strategy. The result would be a cash improvement of US$8.8 million and a recurring benefit of US$18 million to the business.

Conclusion

There are a myriad of ways to impact business results using EPM tools and processes. To design the most impactful initiatives, start with the strategic objectives of the company or organizational unit and go through the steps discussed above and summarized in this checklist:

• Choose a business impact area—revenue growth, operating margin, cash cycle, asset utilization, or other key metric.

• Select the business function(s) that are most accountable—such as marketing, sales, operations, research and development, shared services, or finance.

• Identify one or more decision process steps—gather, understand, debate, or decide—that lack visibility.

• Select one or more roles within the functional area—such as strategic, operational, or tactical execution.

• Identify the top value drivers or key performance indicators for that role.

• Select an EPM process and/or tool that matches the decision process.

With these steps, you can refine your EPM roadmap to ensure that it has a real, material impact on your company.