Introduction – Management Excellence Framework

In the era of operational excellence, operational processes became well defined. Order to Cash, Procure to Pay, Invest to Retire, and Develop to Release, among others, became reliable, uniform, and predictable ways to get the job done. In time, the management processes will be defined with the same degree of clarity. At the moment, however, the term means many things to many people.

When asked to define their management process, managers answer with either silence or a flurry of different activities and partial processes, such as budgeting, financial reporting, resource management, and variance analysis. The closest traditional model that people suggest is the PDCA-cycle (Plan, Do, Check, Adjust) - sometimes called the planning and control cycle, or management cycle. But this approach falls short because of its inside-out approach.

The Management Excellence Framework offers a process by which companies can achieve Management Excellence by linking strategy to success. The Management Excellence Framework expands the scope of traditional performance management to offer a framework by which companies can deliver Management Excellence. Enterprise Performance Management Systems (EPMS) then enable companies to realize their management process goals by connecting disparate management activities and bringing together strategy formulation, execution, and feedback.

The Management Excellence framework consists of six steps, in which the output from one becomes the input for the next. These steps are depicted in Figure 1 below.
The Management Excellence Framework combines several principles that are critical in driving management excellence.

First, it balances an outside-in and inside-out approach in managing performance - explicitly including external views of the business by understanding stakeholder contributions and requirements as well as market dynamics. In contrast, traditional approaches to performance management are primarily focused on understanding internal business performance only.

Second, because management processes are of strategic, financial, and operational nature, the key to success is aligning these processes across various levels as well as across business functions. Sound business results come only from the perfect execution of plans, making it imperative to connect the entire set of management processes. Traditional performance management often treats management activities such as planning, budgeting, forecasting, reporting, and analysis in isolation.

Third, the Management Excellence Framework drives management excellence by recognizing that, to create a learning organization that is agile, feedback loops between management processes are critical. This feedback allows companies to detect changes immediately, assess the impact on their plans, and quickly find alternative ways to reach their goals. These feedback loops should consist of the right key performance indicators on the operational, financial, and strategic management levels.

Last, the Management Excellence Framework organizes the various performance management processes to be aligned. Each management process has its own focus.

In this white paper, we focus on the Investigate to Invest management process.
Investigate to Invest

External stakeholders ask not for a budget, but for projections, forecasts and market guidance. If you miss external trends that have an impact on your business the repercussions can be serious. Stakeholders lose confidence in the capabilities of the management team, the share price may be affected, and agencies may lower your ratings, leading to an increase in the cost of capital.

Understanding market dynamics is the first crucial step in evaluating strategic alternatives and defining appropriate goals for a company’s particular situation. As new products roll out, new competitors enter the market, consumer behavior changes and the pace of business accelerates, most organizations collect sufficient external data to predict future trends. But this information often resides in a competitive intelligence (CI) function, separate from internal information about resources and activities that is housed within extensive business intelligence (BI) systems. Rarely are the two combined. The Management Excellence Framework brings them together.

Through its EPM system, a printing company accelerated the way it assesses and integrates acquisition targets. As a result, the company has been able to maintain a complex, long-range financial model of its business, test scenarios for their impact on financial and operational performance, and set earnings expectations for quarterly communication with financial analysts.

Similarly, when a European producer of candies wanted to better understand the effects of seasonality on demand for its products, it turned to an EPM system that has improved profitability analysis for its product and processes.

Investigate to Invest

Investigate to Invest is the management process for identifying, evaluating and creating the most attractive market opportunities for investment. The purpose of this process is to select strategic alternatives to generate the highest returns. Which existing markets to focus in, which ones to enter and which markets to retract from. This process involves combining external information such as market intelligence and competitive intelligence with internal analysis of the product or service portfolio performance as well as customer and geographic performance.

The Investigate to Invest process introduces the following questions:

- With whom will you be competing in three to five years’ time?
- How do you assess the full range of outcomes for your potential investments?
- How do you predict the probability of success or failure of new initiatives?
- Do you understand revenue and profitability by product line, customer segment, market, channel, etc.?
• Have you fully evaluated the performance of your value chain?

Step by Step

The Investigate to Invest management process deals combining internal and external information to find the potential investments an organization can make to generate the greatest returns. Table 1 below describes inputs, best practice and outputs for the Investigate to Invest management process.

The Investigate to Invest process deals with all aspects of the markets where an organization operates or invests. Using external market intelligence, competitive intelligence, and analysis of internal revenue and contribution margins, the first step is to investigate market dynamics by mapping internal analysis to an external market view.

<table>
<thead>
<tr>
<th>INPUT</th>
<th>BEST PRACTICE STEPS</th>
<th>OUTPUT</th>
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<tbody>
<tr>
<td>Market intelligence</td>
<td>1. Investigate market dynamics, market drivers and customer segments</td>
<td>• Targeted markets (geographies, customer segments, product segments, industries)</td>
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<tr>
<td>Competitive intelligence</td>
<td>2. Assess the market potential</td>
<td>• Divestment in abandoned markets</td>
</tr>
<tr>
<td>Macro-economic statistics</td>
<td>3. Match the market potential with resources, capabilities, constraints, and goals</td>
<td>• Market projections, drivers and assumptions</td>
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<tr>
<td>Resources, assets, capabilities, constraints, external goals</td>
<td>4. Define market portfolio and competitive position/differentiation</td>
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<td></td>
<td>5. Size investments and divestments in selected target markets</td>
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Typically, these are multidimensional models that define markets by sector, segment, region, channel, and product and service portfolio. Eventually, they include more-detailed attributes such as demographic characteristics. Next, the company can connect this external competitive intelligence with internal business intelligence. What resources does the organization possess that allow it to play a leading role in a certain market? Does the organization have the right skills and capabilities? What are the strategic constraints, such as return on investment hurdles and other opportunity costs? And how is each particular market contributing to the organization’s overall goals?

The final step in this process involves finding the most attractive markets. Defining the optimal product and service portfolio for a given customer segment is the goal. The drivers should be clearly defined and their impact on the business understood. This step also includes making
divestment decisions that allow the company to move away from markets that are not attractive or will not deliver the expected revenues and margins.

Leading organizations are able to identify the best opportunities by combining internal analysis of their portfolio strength with the dynamics of certain markets to identify differentiators and ultimately create a competitive advantage.

**Key Metrics**

Management excellence means that organizations create competitive advantage by having superior management processes, making the organization smart, agile, and aligned. Management processes should be managed using performance indicators much as operational processes are. Table 2 below describes performance indicators that can be used for the Investigate to Invest management process.

**TABLE 2: INVESTIGATE TO INVEST PERFORMANCE INDICATORS**

<table>
<thead>
<tr>
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<th>BUSINESS RESULTS (LAGGING)</th>
<th>BUSINESS DRIVERS (LEADING)</th>
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<tbody>
<tr>
<td>Competitive rivalry</td>
<td>• Win/loss ratio</td>
<td>• Market growth</td>
</tr>
<tr>
<td></td>
<td>• Market share</td>
<td>• Market capacity</td>
</tr>
<tr>
<td></td>
<td>• Profitability</td>
<td>• Economies of scale</td>
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<tr>
<td></td>
<td>• Continuous marketing cost</td>
<td>• Cost of product relative to selling price</td>
</tr>
<tr>
<td>Bargaining power of</td>
<td>• Discount negotiation results</td>
<td>• Switching cost</td>
</tr>
<tr>
<td>suppliers</td>
<td>• Supplier price comparison</td>
<td>• Degree of supplier differentiation</td>
</tr>
<tr>
<td>Bargaining power of</td>
<td>• Discount negotiation results</td>
<td>• Price sensitivity</td>
</tr>
<tr>
<td>customers</td>
<td>• Recency, frequency, monetary (RFM) value of</td>
<td>• Switching cost</td>
</tr>
<tr>
<td></td>
<td>customer segments</td>
<td>• Buyer volume</td>
</tr>
<tr>
<td>Threat of new entrants</td>
<td>• Win/loss ratio</td>
<td>• Percentage patent protected revenue</td>
</tr>
<tr>
<td></td>
<td>• Revenue from new products</td>
<td>• Brand value</td>
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<td></td>
<td>• Cost advantage index</td>
<td>• Cost advantage index</td>
</tr>
<tr>
<td>Threat of substitute</td>
<td>• Win/loss ratio</td>
<td>• Buyer propensity to substitute</td>
</tr>
<tr>
<td>products</td>
<td>• Substitute market growth</td>
<td>• Relative price performance of substitutes</td>
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The Investigate to Invest process benefits from a good understanding of one of the best recognized frameworks for market analysis, Porter’s Five Forces model.
Most organizations have some competitive intelligence in place, but often not deeply connected to their own business intelligence. The Management Excellence Framework suggests a tighter integration. Most of the information in the Investigate to Invest process will be external in nature. This starts with the traditional performance indicators such as market share, win/loss ratios against all major and new competitors, and profitability analysis. More leading metrics to assess the attractiveness of a certain market would be market growth, the existence of overcapacity, the opportunity to create economies of scale, and the need for continuous marketing costs. Additional forces of competition come from new entrants in the market and other substitute markets. For instance, think of high-speed trains competing with short-haul flights, mobile phones competing with mp3 players, or the supermarket gourmet section competing with restaurants. Key performance indicators to track successful competition would be the extent to which buyers are likely to substitute, and a price performance comparison. In the case of new entrants, it makes sense to track which part of the revenue is protected by patents, for example. Buyer preference may come from brand value (which at the same time is also a lagging metric, as brand value is impacted by customer loyalty), and an assessment of how unique certain cost advantages are. Tracking fixed cost as part of overall cost is important in assessing how easy it is to withdraw from a market and allocate resources elsewhere.

Although suppliers and customers are different from competitors (unless there is a high degree of forward and backward integration in the value chain), they impact an organization’s competitive performance as well. Suppliers and customers have bargaining power. This is shown in discount negotiations (of the organization towards its suppliers as well as the customers towards the organization), but there are more leading metrics as well. Suppliers have a high bargaining power if the cost of their product is a large part of the selling price of your product. Think of the screens of laptops, or the batteries for a hybrid car, or the price of oil as part of the cost of a flight. The bargaining power of suppliers increases when the switching costs are high, even when there are many comparable suppliers.
Customers have a high bargaining power if there is high price sensitivity in a market and if the switching costs are low. Loyal customers that have a very high volume have special power too. Think, for instance, of supermarkets that have the power to negotiate prices below the actual cost of a product.

Minding customers and suppliers is part of the Gain to Sustain management process as well, and various other key performance indicators overlap too.

**Key Methodology: Five Forces**

**Techniques and Technologies**

In support of the Investigate to Invest management process, an EPM system needs to enable a broad range of strategic, financial, and operational modeling requirements. This includes the ability to evaluate and assess the attractiveness of individual market opportunities, perform scenario analysis across a range of potential outcomes, assign probabilities and perform risk management, and assess the impact of strategic decisions on the short- and long-term financial performance of the organization.

Key techniques and capabilities required to support the Investigate to Invest process are:

- **Market analysis.** Based on third-party data or primary research, this capability includes market sizing, market share analysis, growth projections, and competitive intelligence. Given the multidimensional nature of this analysis - including customer segments, geographies, products, markets, competitors, time, and others - it typically requires robust online analytical processing (OLAP) server technology combined with predictive modeling.

- **Scenario analysis.** This type of analysis can be applied to financial and operational modeling and focuses on creating different business scenarios. Simple scenario modeling can include creating a base case and then high and low cases based on changes made to input variables, such as market growth rates or inflation rates. This technique is often used in modeling market and business opportunities and creating business plans. More advanced modeling includes Monte Carlo simulation that supports creating a broad range of scenarios based on multiple iterations of input assumptions and combinations. With this technique, probabilities can be assigned to the various outcomes.

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1 http://en.wikipedia.org/wiki/Porter_5_forces_analysis.
• **Financial modeling.** Also used in the Gain to Sustain process, financial modeling involves projecting future financial results by analyzing the impact of different scenarios or input assumptions. Models can show the results of different strategic decisions or the impacts of external forces.

Table 3 highlights the specific modules of Oracle’s EPM system that support the Investigate to Invest process.

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>ALLOWS MANAGERS TO</th>
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| Oracle Hyperion Strategic Finance | • Assess the financial impact of strategic initiatives, capital investments, brand investments, and mergers and acquisitions on company value  
• Evaluate the trade-offs between investing in existing businesses, selling off parts of the business, or entering and investing in new market opportunities |
| Oracle Crystal Ball | • Increase the probability of investment projects’ success by providing insight into the biggest risk factors and variables that drive value  
• Optimize the business portfolio and select the investment projects that provide the highest return given capital constraints and risk levels |
| Oracle Essbase | • Quickly model complex business scenarios by providing an environment for rapidly developing custom analytic and EPM applications  
• Develop market sizing and growth projections, scenario modeling, and what-if analysis  
• Deliver fast response times and powerful calculations so users can ask questions, understand the critical metrics that influence business performance, and make informed decisions |

The output from the Investigate to Invest process becomes input for the Design to Decide process. This output includes targeted markets - geographies, customer segments, product segments, and industries - as well as markets that should be divested, market projections, drivers, and planning assumptions. Such data helps to focus and drive the Design to Decide process.
Call to action

Management processes should not be viewed in isolation. Oracle’s Management Excellence Framework describes a set of six management processes that lead organizations to become smarter, more agile, and better aligned - the key attributes of management excellence. Companies implementing the framework apply a systematic approach to management activities to increase both managerial and operational effectiveness. They can visualize the impact of business decisions and understand the levers that can be adjusted to affect outcomes. However, management processes differ from operational or transactional processes, and the techniques and technologies required to support and integrate each type are different.

By unifying performance management and BI, Oracle’s EPM system supports the strategic, financial, and operational management processes described in the Management Excellence Framework. Oracle provides a complete and integrated system for managing and optimizing enterprise wide performance and supporting all of the best practices and techniques associated with the management processes. This combination of processes, techniques, and technologies allows organizations to leverage operational investments, achieve management excellence, and create competitive advantage.

Thousands of companies around the world are benefiting from Oracle’s comprehensive approach to EPM. With lower costs and less complexity than with nonintegrated point solutions, companies using Oracle’s EPM system are able to align decisions with strategic goals, reduce financial reporting and planning cycles, compare operational results to plans in real time, and drive strategy to success.  

3 For more information on Oracle’s approach to enterprise performance management, please visit oracle.com/epm.