An Oracle White Paper
August 2009

Smart Enterprise Performance Management Strategies for Uncertain Times
Introduction................................................................. 1
Imperative 1: Build Trust...................................................... 4
Imperative 2: Invest and Divest Wisely ............................... 6
Imperative 3: Re-Think Strategy ......................................... 8
Imperative 4: Plan Flexibly.................................................. 10
Imperative 5: Monitor Continuously ................................. 12
Imperative 6: Get Insight…And Share It............................ 14
Imperative 7: Do All This in Concert................................. 15
Summary ............................................................................. 17
  Focus on the essentials .................................................. 18
  Protect the business ..................................................... 18
  Move forward with confidence ..................................... 18
Introduction
A December 2008 survey by CFO Magazine showed that 70% of CFOs can’t forecast more than a quarter out. Most budgets prepared for 2009 were out of date the moment the year started. In boardrooms across many industries and regions business has become really hands-on. “Strategy is great, but not today”, is the cry that can be heard. At the same time, history shows that deliberately not following the herd and displaying contrarian behavior are cornerstones of establishing a leadership position for better times ahead.

This is the dilemma most organizations face today: how to both maintain a long-term leadership position, as well as manage today’s operations. Understanding the core business, taking action to protect and nurture it, retaining the best talent during tough times and constantly looking for hidden opportunity are not only strategies for survival but almost always the very foundation of continued expansion beyond the recession.

Enterprise performance management reconciles this dilemma. Enterprise performance management helps streamline management processes, creating the smart, agile and aligned organization. It allows the close monitoring of performance, enables flexible planning and helps in re-establishing trust with stakeholders. At the same time, it drives insight in divestments and investments, and offers techniques that help in rethinking strategies. These are all items at the top of the executive agenda, for management attention.

For organizations that are tightly managed, challenging times are loaded with opportunity. Asset values are low, competitors yield market share and talent floods onto the job market. Nevertheless, this is no time for complacency. All companies are vulnerable to rapidly changing macro-economic conditions, impromptu government action, volatile commodity prices, exchange rates and interest rates.

But how prepared are companies to meet the challenge? Over the last two decades businesses have made significant advancements in operational excellence. Implementing, for example, ERP and CRM systems and shared services centers designed to deliver process efficiency and lower cost per transaction. Operational business processes are under control and well understood. Optimal cost, quality and speed in many cases have become the norm.

Yet, the organization’s management processes, vital for bridging the gap between the long and the short term, are not near that level of sophistication. Management processes are poorly defined, and often underdeveloped. In other words, management excellence, as an extension to operational excellence, needs significant attention.

In order to help business leaders organize, plan, measure, and report for management excellence Oracle has developed the Management Excellence framework which consists of six interrelated management processes.

Oracle’s Management Excellence framework describes a series of six management processes. These link strategies to plans and execution, bridging understanding of the external environment with maintaining internal control.

The three traditional management processes, providing internal control are:

- The Plan to Act process, creating and managing the business plan.
• The Analyze to Adjust process, monitoring and resolving issues in execution

• The Record to Report process, collecting information and providing feedback on all levels by measuring business results.

However, most business change and issues causing economic downturn are inflicted by external events. Therefore these traditional management processes should be extended to:

• The Gain to Sustain process, creating an understanding of the stakeholder environment and improving stakeholder communications.

• The Investigate to Invest process, managing market opportunities and threats.

• The Design to Decide process, formulating strategy.

In these turbulent times, it turns out this framework is extremely practical and relevant, creating a confluence between short term pressures and the long-term outlook.

Within each element of the Management Excellence framework there are immediate actions that can be taken to improve business performance, from monitoring daily operations to sharpening forecasting techniques to stress testing the business. In short, enterprise performance management suggests seven imperatives to manage in uncertain times.

Following the Management Excellence framework from left to right, these are;

• Build trust
• Invest/divest wisely
• Re-think strategy
• Plan flexibly
• Monitor continuously
• Get insight….and share it
• And, do all this in concert!
Imperative 1: Build Trust

The Gain to Sustain process provides an understanding of the stakeholder environment and improves communications.

The notion that businesses, even very big businesses, can execute strategies entirely on their own terms is misplaced. Most organizations operate in a fragile ‘ecosystem’ of multiple stakeholders and dependencies. For the last two decades businesses have been driven by the “maximize shareholder value” mantra, but such single mindedness is being challenged by a much more inclusive and well-rounded view. Corporate Social Responsibility reporting has opened managements’ eyes to a wider range of responsibilities and relationships.

While the need to satisfy shareholders remains preeminent there are other stakeholders with who trusted relationships are essential to delivering success - especially in a recession. Carefully managing those relationships is a priority.

Paying attention to the needs of customers, who are vital to the core business, is crucial during a downturn. What is their financial position? How can their loyalty be retained? Who is at risk of defection or non-payment?

Securing the supply chain and deft management of inventory are essential considerations in their own right as well as limiting the activities of competitors in core areas. Suppliers are an important source of working capital. Can better terms be secured? Is it possible to arbitrage products between suppliers?
Finally, employees are frequently the most valuable resource of all. But in the recession, the scope for remuneration increase and bonuses are limited. So consideration needs to be given to what else can be done to bolster employee trust, loyalty, motivation and performance.

However, none of this can be achieved without access to dependable management and financial reporting systems and processes that can offer the vital business insight to make timely and informed decisions as well as demonstrating regulatory compliance.

What you can do today:

- Identify key stakeholders and develop an influencing and communication strategy
- Meet with lenders, instigate regular updates on performance, investment programs and strategies
- Implement key customer account ‘loyalty management’ program
- Meet vital suppliers, secure long term supply, renegotiate terms where necessary
- Devise an employee communication plan
- Consider producing a Sustainability Report to communicate the impact of the organization on the external environment and society at large
- CEO’s should arrange to meet the IRO (Investor Relations Officer). Does the Annual Report ‘sell’ the company? Would investors and other stakeholders understand the company’s performance?
Imperative 2: Invest and Divest Wisely

The Investigate to Invest process is a scan or model of the market.

The easiest way to respond to economic setbacks is by significant cost-cutting. The exercises are applauded by Wall Street and look heroic and resolute. They immediately contribute to the bottom-line as well. But where do you cut costs?

A recent Accenture study on previous recessions remarked that the winning companies did not just cut costs during the downturn; they cut the right costs. And they diverted resources to activities with the best chance of creating value. Top performers in general know how their products and services stack up against those of the competition, why customers prefer doing business with them and exactly what the company has to do to turn a profit.

The financially positive impact of selling off a business unit, or blanket cuts across the board may be easy to determine, but may be detrimental for future performance. It inevitably penalizes profitable parts of the enterprise that may provide opportunities for growth while limiting the

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2 Accenture. Managing for High Performance in an Uncertain Economy, Outlook Point of View October 2008, No. 3
impact on underperforming areas that need more drastic pruning. The same Accenture study suggested it is best to cut deep and hard where needed in the beginning of a downturn, and use the freed up resources for investments related to the value drivers of the company.

The ability to rapidly assimilate external market intelligence, benchmarks and competitor analysis and marry it with an understanding of segmented business revenues and contribution is a central and reoccurring requirement in a volatile market. Where are competitors performing better, where are the fault lines and new market opportunities? Does our organization have the know-how, resources and infrastructure to take advantage of opportunities? To answer questions such as these requires multidimensional models that define markets by sector, segment, region, channel, and product and service portfolio.

What you can do today:

- Re-evaluate the core business; develop strategies to protect core value
- Benchmark performance against industry data and competitors
- Analyze profitability by product line, service and customer segment to understand contribution across the portfolio
- Create divestment plans, postpone/abandon non-core projects
- Complete competitor analysis, identify acquisition targets/other market opportunities
- Simulate revised organization and strategy scenarios in longer term business models
- Prepare to execute on plans
Imperative 3: Re-Think Strategy

The design-to-decide process is the development of the business model and strategy.

Frank Blake, the CEO of Home Depot, was quoted in the Wall Street Journal, saying “A downturn is a terrible thing to waste. It’s easier for everyone to understand the need for the change when things are tough and the risks are lower.” The notion that strategy is a luxury that you can only afford during good times is misplaced. In fact, testing times offer the best opportunities to push strategic initiatives through that beforehand had been impossible because of an organization’s complacency. Table 1 shows an indicative overview of strategic initiatives that fit tough times.

Astonishingly, given its importance, up until very recently there has been little attention for technology support for this most vital of management processes. But now effective tools are available that provide a complete modeling environment, together with Monte Carlo simulation for scenario planning, taking into account risk and probability profiles. Furthermore, higher levels of application integration now allow for a rapid turnaround, transforming strategy development from a redundant offline process into a viable and responsive management tool which can be used on a daily or weekly basis.
TABLE 1: STRATEGIC INITIATIVES FOR TOUGH TIMES.

<table>
<thead>
<tr>
<th>FINANCING AND COST</th>
<th>PRICING</th>
<th>TOP LINE FOCUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduce debt and other liabilities</td>
<td>• Offer low-priced versions of existing products</td>
<td>• Adopt aggressive customer retention programs</td>
</tr>
<tr>
<td>• Secure access to lines of credit</td>
<td>• Unbundle services</td>
<td>• Analyze marketing spend to align with immediate revenue generation</td>
</tr>
<tr>
<td>• Investigate alternative sources of capital</td>
<td>• Focus on full pricing where brand value is important</td>
<td>• Focus on customer profitability</td>
</tr>
<tr>
<td>• Eliminate non-core activities</td>
<td>• Consider creative pricing strategies such as results-based or subscription pricing</td>
<td>• Create generous terms (service, financing, returns) for immediate deciders and customer paying full-price</td>
</tr>
<tr>
<td>• Revive efficiency initiatives</td>
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More tactical short term strategies can also benefit from a modeling approach. Different sources of finance, off-shoring, outsourcing, mix of sales channels, supply chain efficiencies and even modeling your carbon footprint can all be implemented independently or together as needs dictate.

What you can do today:

- Reassess strategic initiatives against current business conditions and likely future organizational performance – be ready to cease or increase investment in current projects whilst also starting new ones
- Review all initiatives rejected in the last 24 months – they maybe the right thing to do now and much of the planning will have already been done
- Build a robust business financing model and simulate new scenarios – with financing opportunities changing daily there maybe great new ways to finance your strategic plans
Imperative 4: Plan Flexibly

The Plan to Act process is the creation and management of a business plan.

This year’s budget probably turned out to be waste of time from the outset. In fact, some organizations have stopped using an annual budget altogether. There is still room for investment, but purely on a case by case basis when cash permits it. Is the suggestion to stop planning and label it as a futile exercise? Definitely not, in fact in testing times the process of planning takes on more urgency as organizations seek constantly to forecast the near term outcome and marshal resources in the most effective way. When business conditions soften and become unpredictable, management needs to focus on forecast accuracy and frequency until it can consistently produce a reliable picture of the business environment – this is a pre-requisite for any downstream management action.

But there is no point in a static annual financial budget. Conventional budgets and plans are too slow and unresponsive to be helpful in a recession. A more nimble response is needed for constantly changing market conditions. The artificial horizon of the annual budget and attendant forecast revisions acts as a brake on forecasting accuracy and can create spikes in profit forecasts and cash requirements whenever a business is forced to reforecast. Planning needs to be a continuous, flexible exercise, based on rolling forecasts. Rolling forecasts, which are based on a rolling 12-18 month timeframe, are regarded as delivering superior accuracy for businesses facing constant change.
Frequent and rapid re-forecasting is the order of the day, supported by a large measure of realism and a willingness to confront difficult decisions, avoiding the ‘sand-bagging’, protectionism and gaming that are characteristic of the conventional annual budget process. The effort seems to be well worthwhile. Two thirds of organizations are already using rolling forecasts in some form and forty percent of them consider that they either already have or will increase forecasting confidence. The same research points to the importance of enabling technology (i.e. packaged applications not spreadsheets) in accurate forecasting. Key determinants of forecast accuracy include forecast frequency, speed/ease of submission, multiple iterations and engagement with management in the front line.

What you can do today:

- Re-examine budgeting and forecasting processes. Work with senior managers to reduce complexity and detail
- Sacrifice unnecessary accuracy in favor of speed of re-forecast
- Eliminate spreadsheet bound processes. Roll out a more agile web based platform
- Involve users from all functional areas especially those on the ‘front line’
- Integrate plans between operational areas and finance
- Focus on revenue forecasting rather than micro-managing costs. Where can the business take market share?
- Forecast working capital requirements as well as profit and loss items
- Challenge ‘sacred cows’ with a zero based budgeting approach
- If feasible, move to a monthly rolling forecast

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3 Report: Forecasting with Confidence; Economist Intelligence Unit/KPMG 2007
Imperative 5: Monitor Continuously

The Analyze to Adjust process is the monitoring and execution of the business operations.

Monitoring working capital in finance, throughput in administrative, logistical or manufacturing processes, campaign response rates in marketing, excess vacation days in HR and capacity utilization rate in IT are all often “low hanging fruits”. Improvements that can have a dramatic impact on the bottom line almost overnight, just by paying attention to the operational details. This is something every new manager in the job knows, but why wait until there is a new person on the job. These improvements can be gained today.

As businesses develop in growing markets there is a natural tendency to focus on special projects, interesting new ventures and opportunities. The number of key performance indicators and breath of management reporting grows and grows. But sometimes it is important to go back to the basics. In a severe downturn the number one priority is on maximizing liquidity by managing cash and driving down working capital requirements. When survival is in peril, traditional financial measures come to the fore and speed of reporting is of the essence. Constant monitoring and complete mastery of the essentials such as, cash flow, working capital (debtor, inventory levels, and supplier trade terms), liquidity, credit lines, banking covenants and sales order pipeline is critical.

Potential savings from optimizing a company’s working capital can be substantial and can easily reach a $1 billion and more for larger companies. As a rule of thumb, most manufacturing companies can free up cash equivalent to approximately 10 percent of sales from net working
capital optimization by addressing inventories (including production and sourcing processes) and receivables, and by using trade credit providers.

Pragmatically, the starting point is to simplify management reporting, improve its distribution and increase the frequency with which it is produced. Business intelligence systems have a material role to play in information delivery, marshalling data sources, identifying variances, unmasking exceptional performance and confirming negative trends so that management can take remedial action. Exception reporting and alerting are vital tools to quickly identifying unexpected performance (good or bad) and being prepared to take action.

What you can do today:

- Carry out a rapid review of KPIs. Focus the management team on the essentials, e.g. cash management
- Instigate flash reporting for critical KPIs – consult with CFO, CIO and CTO to ensure high impact KPIs are distributed to all vital areas of the business. Review regularly, (daily, weekly as appropriate)
- Home in on poorly performing business areas. Set up ‘intensive care’ program with senior management to turn around under-performing business units
- Review cost reduction measures – use business intelligence reports to identify how quickly planned savings are being realized
- CFO’s should meet with HR Director. Review progress on staff motivation, attrition, absenteeism and lay-offs. Re-focus reporting/scorecards on urgent HR initiatives

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4 “Collateral Damage” – Boston Consulting Group 2008
Imperative 6: Get Insight….And Share It

The Record to Report process is the collection of information and the receipt of feedback on all levels by measuring business results.

Having access to management information has always been a luxury. “Information is power” as they say, and most organizations have perfected distributing information on a strict need-to-know basis. Those days are over. It is now clear that information is an asset, and its use needs to be maximized. Like other factors of production, such as capital, labor and raw materials, information is a crucial factor for business success – and in fact business survival.

Surviving difficult conditions requires information. When you climb a mountain for the first time in a snow storm, you need a map. When you drive in a city you don’t know, you need a navigation system. When you run a business, you need timely information about your market and operations.

Before making any investment in management processes and management information systems, it is imperative that the old “politics” are defeated. Getting and sharing insight is the basis of all improvement.

Management information should not be viewed in a vacuum – it is a resource for the entire organization and the main instrument for bringing about strategic alignment, i.e. ensuring that the workforce is equipped with the insight it needs to confidently make decisions in a manner that is strategically compliant. So the information also needs to be shared rapidly. In the
networked economy, in which multiple stakeholders within and beyond the organization are constantly interacting, sharing information sustains not only the enterprise, but supports the whole value chain. In tough times, it is better to stand together.

What you can do today:

- Review the management information pack with functional heads. Refocus on the essentials and keep it simple.
- CFO’s should meet with the CIO and CTO. Re-assess how information is distributed. Does the company make effective use of scorecards to promote information flow, encourage strategic alignment, and effective decision making?
- Support core reporting processes with informal communications. Set up regular cross-functional reviews (e.g. conference calls), monthly or weekly to help ensure that information is shared and flows seamlessly between different functional areas, for example, between finance and operations.

**Imperative 7: Do All This in Concert**

![Diagram of Imperative 7](image)

1. Build trust
2. Invest and divest wisely
3. Rethink strategy
4. Plan flexibly
5. Monitor continuously
6. Get insight... and share it
7. ...and do all this in concert

Figure 8: Do it All in Concert

Traditional enterprise performance management approaches limit an organization’s reach and responsiveness. Based on a limited set of applications they neither adequately describe the environment in which modern businesses operate nor the breadth of management processes necessary to deliver organizational agility.
By contrast, Oracle’s Management Excellence framework for achieving management excellence drives performance based on a new and extended understanding of the processes and the interdependencies that exist between them.

Smart strategies leverage this understanding of core processes in a more focused and pragmatic way, underpinned by new imperatives that allow organizations to respond rapidly to a more testing and uncertain economic environment.

Figure 9: Recession Makes Demand Drop

How does this work in practice? Figure 9 shows how a series of actions based on Oracle’s Management Excellence framework come together to deal with the situation of the recession hitting the market for an organization’s product and services.

1. As recession hits the market it impacts on the stakeholder environment. Specifically, customers are no longer in the position to buy the same volume of products and services. For business customers this maybe because they are also seeing a downturn in demand or for consumers it could be due to restrictions on credit. The first action is to try and stimulate increased demand looking for instance at customer loyalty programs, price reductions and extending credit.

2. If the drop in demand remains significant then further action has to be taken but what action? Rather than taking ‘across the board’ action market analysis is the key to understand exactly what is happening to products, geographies, channels etc. This will lead to a more focused and measured response to the situation with cost cutting in some areas and investment in others.
3. What is clear is that having refined the market strategy there will need to be appropriate adjustments to the organization’s operational and financial plans. These need to be adjusted to ensure the organization as a whole does not continue with ‘business as usual’ whilst the strategy has changed.

4. As the organization executes the revised plan actual results from the execution become available to compare to the predictions that were contained in the plan. Where the results are ‘not to plan’ further action has to be taken at an operational level. In this case operations have surplus capacity so the short term decision is to reduce the working week to bring supply and demand back into balance.

5. The actions above have focused on internal changes to address the problem but with the Management Excellence framework organizations also look to the wider external situation so in parallel with internal actions they can take external actions. In this case, the organization has lobbied government for aid to help them acquire further channel partners to stimulate demand.

6. The background and justification for the funding request comes from the market investigation and then the formulation of a new strategy based sound analysis and scenario planning. For example, investment in a country where they have no partners on in a country where they have determined that demand outstrips their ability to supply.

7. The ultimate aim is to survive the recession through the execution of well researched and tested strategies based on accurate information and aligned and integrated management processes.

Summary

The smart strategies approach supports traditional performance management but stretches it to consider external factors and to fully embrace the complexities of the networked economy and the multi-stakeholder environment in which organizations now operate. It offers a number of practical and achievable measures which are designed to work in concert. They represent a series of interconnected processes which supplement existing enterprise performance management processes such as management reporting, strip out unnecessary complexity, and position organizations to be more responsive and agile in the face of a period of unprecedented uncertainty.
The imperatives can be summed up in three areas that address short, medium and longer term actions:

Focus on the essentials
- Get insight and share it - simplify management reporting
- Monitor continuously - pinpoint the KPIs that matter
- Plan flexibly - improve forecasting techniques

Protect the business
- Re-think strategy - stress test the organization
- Invest and divest wisely - defend the core

Move forward with confidence
- Build trust - take stakeholders with you
- Do it all in concert

This last point is especially crucial in turbulent times. Doing this serially is not an option. Organizations have to be able to move forward on a wide range of management initiatives which will demand better management processes and systems if they are to be successful.