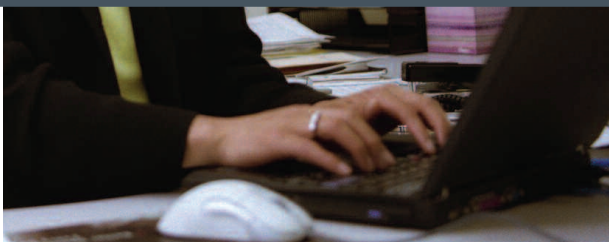


STRATEGIC LONG RANGE PLANNING



PLAN-TO-PERFORM
BLUEPRINT

A WEB-BASED PROCESS FOR MANAGING
LONG RANGE FINANCIAL PLANNING

A COGNOS INNOVATION CENTER ENTERPRISE
PLANNING APPLICATION BRIEF

INTRODUCTION

This application brief demonstrates best practices for managing long range financial earnings projections using Cognos Planning. *The Strategic Long Range Planning Performance Blueprint* uses projections in the *Strategic Financial Planning and Forecasting* and *Initiative Planning Blueprints* to assess the impact of market growth factors and strategic initiatives on corporate P/L projections over five (5) years. The *Blueprint* and processes described in this document are generic for income and expenses in any industry in the US and can be configured to support the requirements for any industry across many countries



OVERVIEW

The *Strategic Long Range Planning Performance Blueprint* provides a mechanism for Financial Analysts to forecast the financial position of the organization over an extended planning horizon much longer than the typical timeline used in the annual planning or periodic re-forecasting processes.

This *Blueprint* brings together financial information from the *Strategic Financial Planning and Forecasting*, and the *Initiative Planning Blueprints*, as illustrated in **Figure 1**.

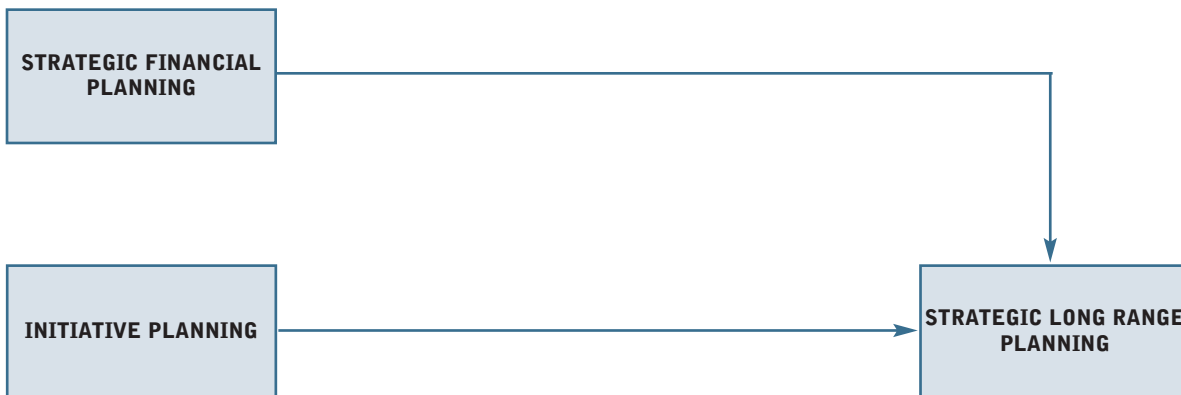


Figure 1. *Income statement data and impact from initiatives flow into the Strategic Long Range Plan*

The *Strategic Financial Planning and Forecasting Blueprint* feeds the *Strategic Long Range Planning Blueprint* with income statement data derived from the bottom-up forecasts and top-level forecasts for the near-term. The *Initiative Planning Blueprint* feeds *Strategic Long Range Planning Blueprint* with the projected income and expense impact of forecasted strategic initiatives.

The *Strategic Long Range Planning Blueprint* then allows for “what-if” scenarios to be performed for the impact of market growth and potential increase in market share through a series of to-be defined strategic initiatives.

BLUEPRINT OBJECTIVES

The *Strategic Long Range Planning Blueprint* achieves a number of planning objectives:

- The consolidation of the impact of strategic initiatives into the income statement.
- Easily project the impact of other economic variables on the organization's profit outlook, over five (5) years.
- Rapidly assess alternative scenarios for any combination of internal and external variables impacting the financial position.
- Leverage a driver-based framework for managing financial projections to more realistically represent the true variables of financial performance.

KEY COGNOS PLANNING BENEFITS

- Flexible and powerful model development using Cognos Planning: Analyst to support any business planning model or customizing *Strategic Long Range Planning Blueprint*
- Web-based deployment of models for process workflow, data collection, and consolidation
 - Real-time workflow
 - Real-time consolidation
 - Real-time calculations in the browser for immediate results
 - Industry-leading “what-if” features for accurate plans, budgets and forecasts
- Scalable architecture with proven deployments to thousands of users
- Easily linked financial and operational plans to ensure cross-enterprise collaboration
- Ensured plan accuracy using form-based planning with selection boxes to drive application logic and calculations

REPRESENTATIVE WORKFLOW

The *Strategic Long Range Planning Blueprint* is designed for use by those financial analysts who support the Office of Finance in providing financial projections based on a series of assumptions—externally and internally driven.

The following sections of this Application Brief describe the basic workflow in which financial analysts:

- Populates the *Blueprint* with near-term income statement plans and forecasts
- Populates the *Blueprint* with the impact of planned strategic initiatives from the *Initiative Planning Blueprint*
- Models the impact of other external economic factors (e.g. market growth rates)

Income Statement

Income Statement										
Project Impact Assumptions Long Range Income Statement										
ABC Inc										
Current Actual/Forecast 2006										
	Q4 Prior Year	Total Prior Year	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Sales	573	1,873	184	193	203	580	186	196	205	585
Cost of Sales %	47%	47%	35%	35%	35%	35%	36%	36%	36%	36%
Cost of Sales	270	880	65	68	72	205	67	70	73	210
Gross margin	305	992	119	125	131	375	119	125	131	375
Gross Margin %	53.00%	53.00%	64.64%	64.64%	64.64%	64.64%	64.10%	64.10%	64.10%	64.10%
Depreciation and amortization	18	71	7	7	7	21	7	7	7	21
Research and development	35	141	14	14	14	42	14	14	14	42
Marketing and sales	7	28	3	3	3	8	3	3	3	8
Administrative expenses	4	14	1	1	1	4	1	1	1	4
Total operating expenses	64	254	25	25	25	75	25	25	25	75
Profit from operations	241	738	94	100	106	300	94	100	106	300
Interest expense	11	42	4	4	4	12	4	4	4	12
Net income before taxes	231	696	90	96	102	288	90	96	102	288
Provision for income taxes	56	226	22	22	22	66	22	22	22	66
Net income	174	470	68	74	80	221	68	74	80	221

The first tab is a mirror of the Income Statement from the *Strategic Financial Planning and Forecasting Blueprint*. The financial analyst populates this tab by using a Cognos Planning system link.

System Link

Description:
Transfer data from Strategic Financial Planning

Pick the source and target applications:

Source application: Strategic Financial Planning
Target application: Strategic Long Range Planning

From application state: Production
To application state: Development, Production

Source cube: Income Statement
Target cube: Income Statement

Map source to target dimensions:

Source dimensions:	Target dimensions:	
Income Statement	Income Statement	<input type="button" value="Map"/> <input type="button" value="Map All"/> <input type="button" value="Edit"/> <input type="button" value="Clear"/> <input type="button" value="Clear All"/>
Months - Income Statement	Months - Income Statement	
Income Statement Scenarios	Income Statement Scenarios	
Years	Years	
EList	EList	

Initiative Impact

	JAN 05	FEB 05	MAR 05	APR 05	MAY 05	JUN 05	JUL 05	AUG 05	SEP 05	OCT 05	NOV 05
Revenue Including Growth											
Expense Including Growth											
Project Expense		179,009	176,720	167,237	162,237	129,305	148,788	148,788	129,305	254,307	154,307
Capital Expense	1,000,000	100,000								24,000,000	6,000,000

Next, using a system link, the next tab in the model brings in summary data from the *Initiative Planning Blueprint*.

Assumptions

	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue Market Growth %	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Revenue Market Share Growth %	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Fixed Expense Growth %	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Variable Expense Growth %	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Cost of Sales %	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%

This tab allows users to input assumptions for the impact of other internal and external variables such as market growth, market share growth, the percentage increase in fixed and variable expenses, and changes in the estimated cost of sales. These assumptions are in addition to any strategic initiatives that are captured from the *Initiative Planning Blueprint*.

Long Range Income Statement

Income Statement		Project Impact		Assumptions		Long Range Income Statement	
ABC Inc		2007		Q1			
	Base	Base + Market Growth \$	Base + Market + Market Share Growth \$	Projects	Projected		
Revenue	595,000	612,850	637,364	1,702	639,066		
Cost of Sales %	33.00%	33.000	33.000	33.00%	33.000		
Cost of Sales	196,350	202,241	210,330	0,562	210,892		
Gross margin	398,650	410,610	427,034	1,140	428,174		
Gross Margin %	67.00%	67.00%	67.00%	67.00%	67.00%		
Fixed Expenses	20,761	20,969	20,969		20,969		
Variable Expenses	53,979	54,519	54,519	(0,250)	54,269		
Total operating expenses	74,740	75,488	75,488	(0,250)	75,238		
Earnings Before Interest and Taxes	323,910	335,122	351,546	1,390	352,936		

Income Statement		Project Impact		Assumptions		Long Range Income Statement							
ABC Inc		Current Actual/Forecast		2006									
	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4
Sales	580	186	198	205	585	187	197	206	590	189	198	208	595
Cost of Sales %	35%	36%	36%	36%	36%	37%	37%	37%	37%	38%	38%	38%	38%
Cost of Sales	205	67	70	73	210	69	72	76	217	71	75	79	225
Gross margin	375	119	125	131	375	118	124	130	373	117	123	129	370
Gross Margin %	64.64%	64.10%	64.10%	64.10%	64.10%	63.22%	63.22%	63.22%	63.22%	62.18%	62.18%	62.18%	62.18%
Depreciation and amortization	21	7	7	7	21	7	7	7	21	7	7	7	21
Research and development	42	14	14	14	42	14	14	14	42	14	14	14	42
Marketing and sales	8	3	3	3	8	3	3	3	8	3	3	3	8
Administrative expenses	4	1	1	1	4	1	1	1	4	1	1	1	4
Total operating expenses	75	25	25	25	75	25	25	25	75	25	25	25	75
Profit from operations	300	94	100	106	300	93	99	106	298	92	98	104	295
Interest expense	12	4	4	4	12	4	4	4	12	4	4	4	12
Net income before taxes	288	90	96	102	288	89	95	101	286	88	94	100	283
Provision for income taxes	66	22	22	22	66	22	22	22	66	22	22	22	66
Net income	221	68	74	80	221	67	73	79	219	66	72	78	216

The Long Range Income Statement consolidates the data from the other tabs and builds an income statement for five years through 2010. Note, the base starting point for Q1 2007 revenue is Q4 2006 revenue. Projected baseline Q1 2007 revenue is derived by applying the market growth factor and the projected market share growth rate to the Q4 2006 revenue projection. The impact of strategic initiatives is applied on top of the baseline Q1 2007 revenue to derive the final Q1 2007 revenue projection for the organization. The process of applying market factor assumptions and the impact of strategic initiatives is performed for each quarter over the planning horizon.

**ABOUT THE COGNOS INNOVATION CENTER
FOR PERFORMANCE MANAGEMENT**

The Cognos Innovation Center is dedicated to transforming routine performance management practices into “next practices” that help cut costs, minimize risk, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.