BUSINESS VALUE GUIDE
VOLUME 6

COGNOS PLAN-TO-PERFORM BLUEPRINTS

CAPITAL EXPENDITURE PLANNING

CAPITAL PROJECT PLANNING
DISCRETIONARY EXPENDITURE PLANNING

COGNOS | INNOVATION CENTER
for Performance Management™

Capital Expenditure Planning helps companies manage cross-enterprise capital expenditures to gain visibility into the global implications of delaying or accelerating capital spending.

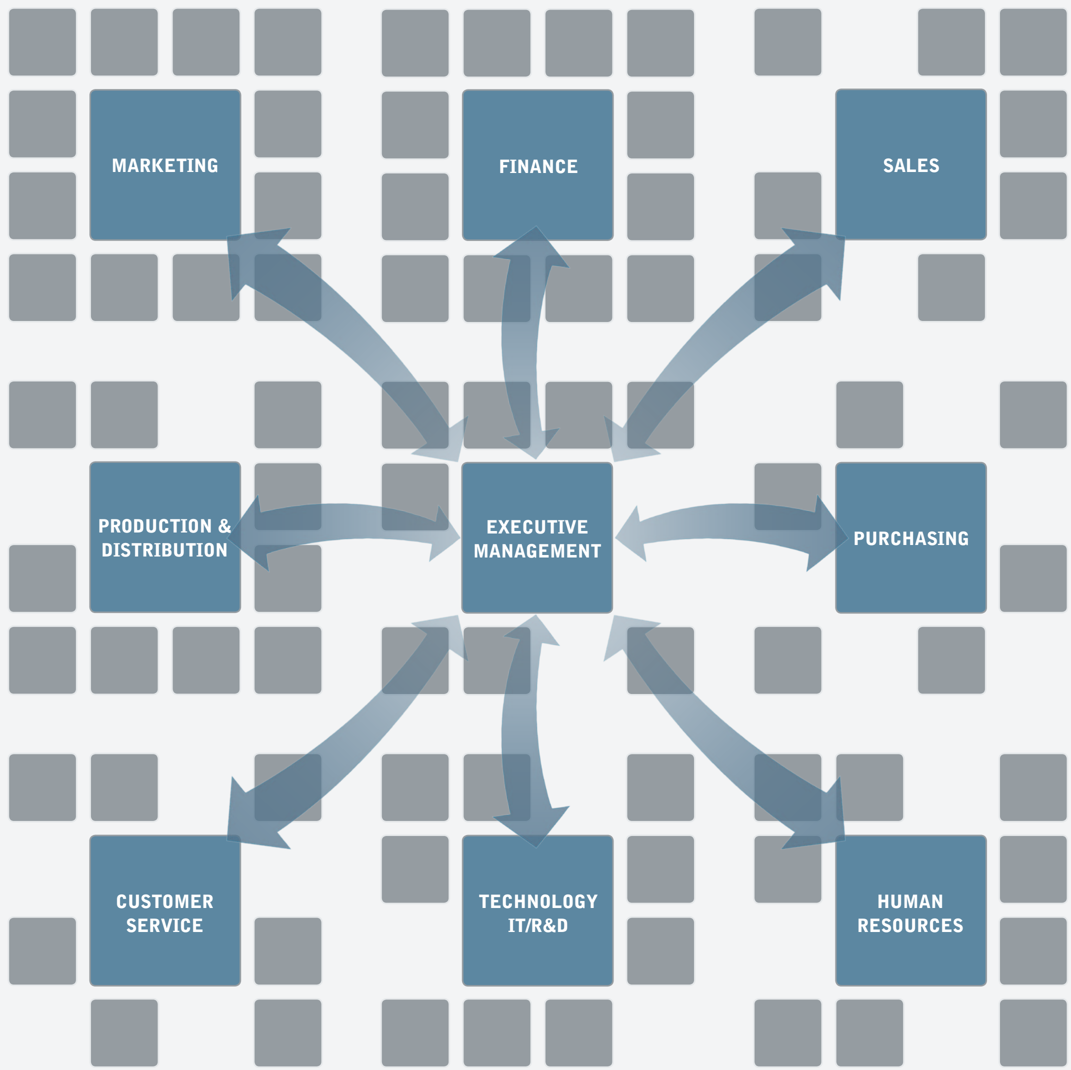
Capital expenditures are essential to corporate growth, whether major capital projects such as new retail stores and employee facilities, or as discretionary capital outlay for such things as furniture and personal computers.

Because capital expenditures have a major impact on cash flow and can encumber corporate funds for years, they require close scrutiny at all levels within a corporation. Capital projects must be justified according to such ROI and risk evaluation measures as payback period, internal rate of return, and net present value. Executive committees may periodically review corporation-wide capital projects to ensure the right ones are approved.

Discretionary capital spending, such as the purchase of furniture or computer equipment, is controlled by restricting spending authority to appropriate levels of responsibility. Management understands that savings can be realized by aggregating capital spending across departments and divisions.

Corporations are therefore seeking tools and disciplines to manage capital projects and expenditures so that divisional decisions are aligned with corporate objectives.

THE COGNOS SOLUTION MAP

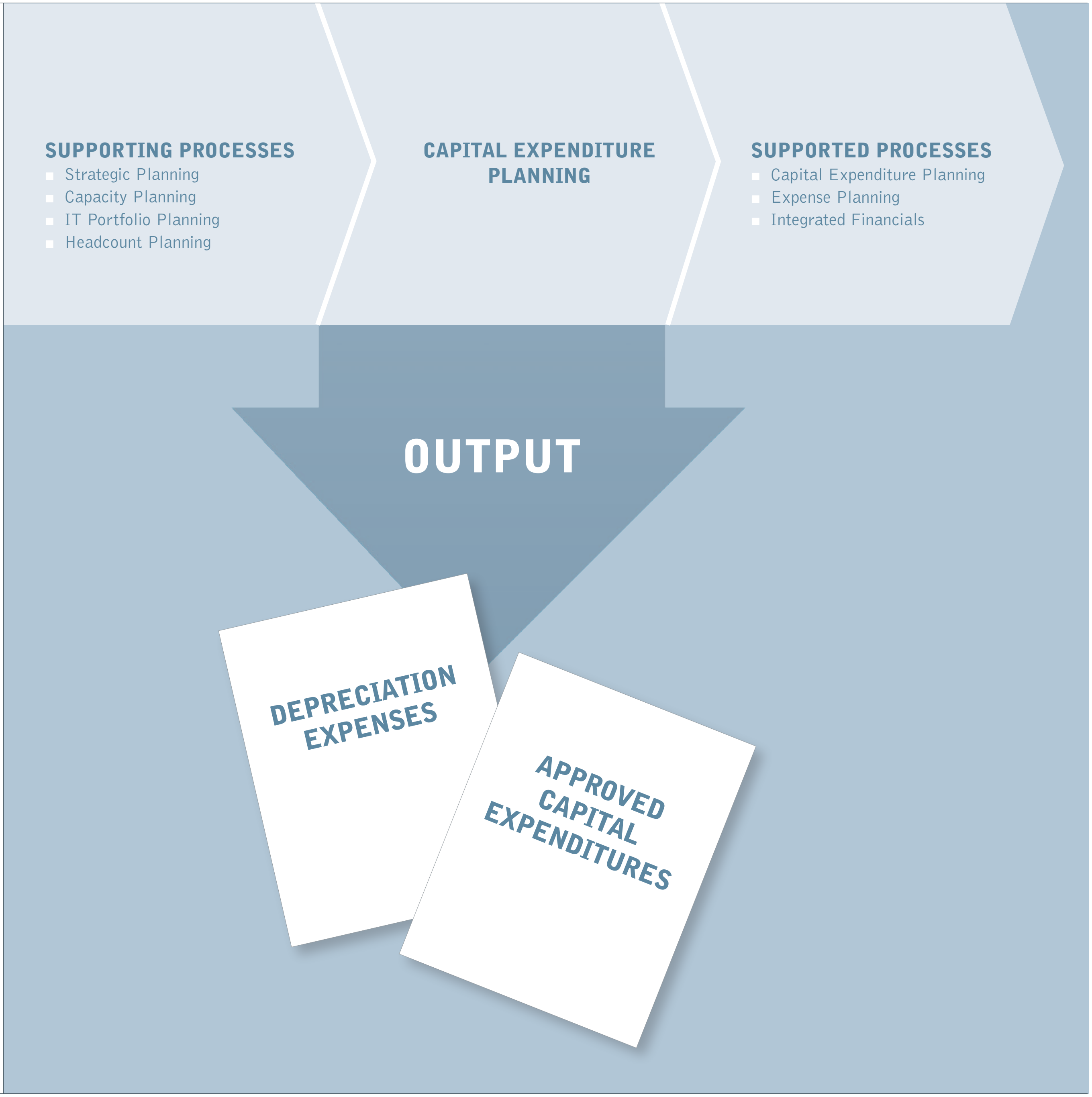


Business drivers link Capital Expenditure Planning to corporate process areas.

Discretionary capital expenditures are dependent on a number of business drivers. For instance, headcount may drive the purchase of computer equipment or furniture. In turn, discretionary capital expenditures are required for overall corporate income statement, balance sheet, and cash flow projections.

Major capital projects are also dependent on a number of business drivers. For instance, a three-year strategic plan might identify the need to expand employee facilities to support the headcount increases required to drive revenue growth. In turn, capital project expenditures are necessary inputs into corporate expense plans, balance sheet, and cash flow projections.

The outputs of the Capital Expenditure Planning process are an approved capital expenditure plan and depreciation expenses.



Discretionary Capital Expenditure planning enables cost-center managers to capture capital asset needs, forecast capital spending, and comply with corporate procurement policies.

Cost-center managers begin by assessing capital asset needs based on key business drivers. For instance, headcount may be directly linked to the need for additional furniture or computer equipment.

Cost-center managers then determine the asset category and priority of various asset requirements. The anticipated purchase price, acquisition date, and in-service date are estimated. Managers' spending authority must be validated against the desired capital requisition.

Cost-center managers then submit capital spending forecasts to management and divisional finance for review. This is an opportunity to aggregate capital spending in order to achieve better terms and conditions from suppliers. For instance, cost-center managers might plan to purchase three different types of personal computers from three different vendors. By aggregating such purchases into a single type of personal computer from one supplier, lower costs and better payment terms can be secured, which directly impacts corporate income statement and cash flow.

DETERMINE DISCRETIONARY CAPITAL REQUIREMENTS	FORECAST DISCRETIONARY CAPITAL SPENDING	COMPLY WITH PROCUREMENT POLICIES	REVISE CORPORATE EXPENSE PLAN
■ Cost center manager assesses discretionary capital asset needs based on business drivers such as headcount or infrastructure plans	■ Determines asset category and priority ■ Forecasts estimated purchase price ■ Forecasts expected purchase date and in-service date	■ Resolves corporate procurement compliance issues ■ Compares purchase amount with approved spending limits	■ Finance rolls up all discretionary capital expenditures up into revised corporate expense and cash flow forecast

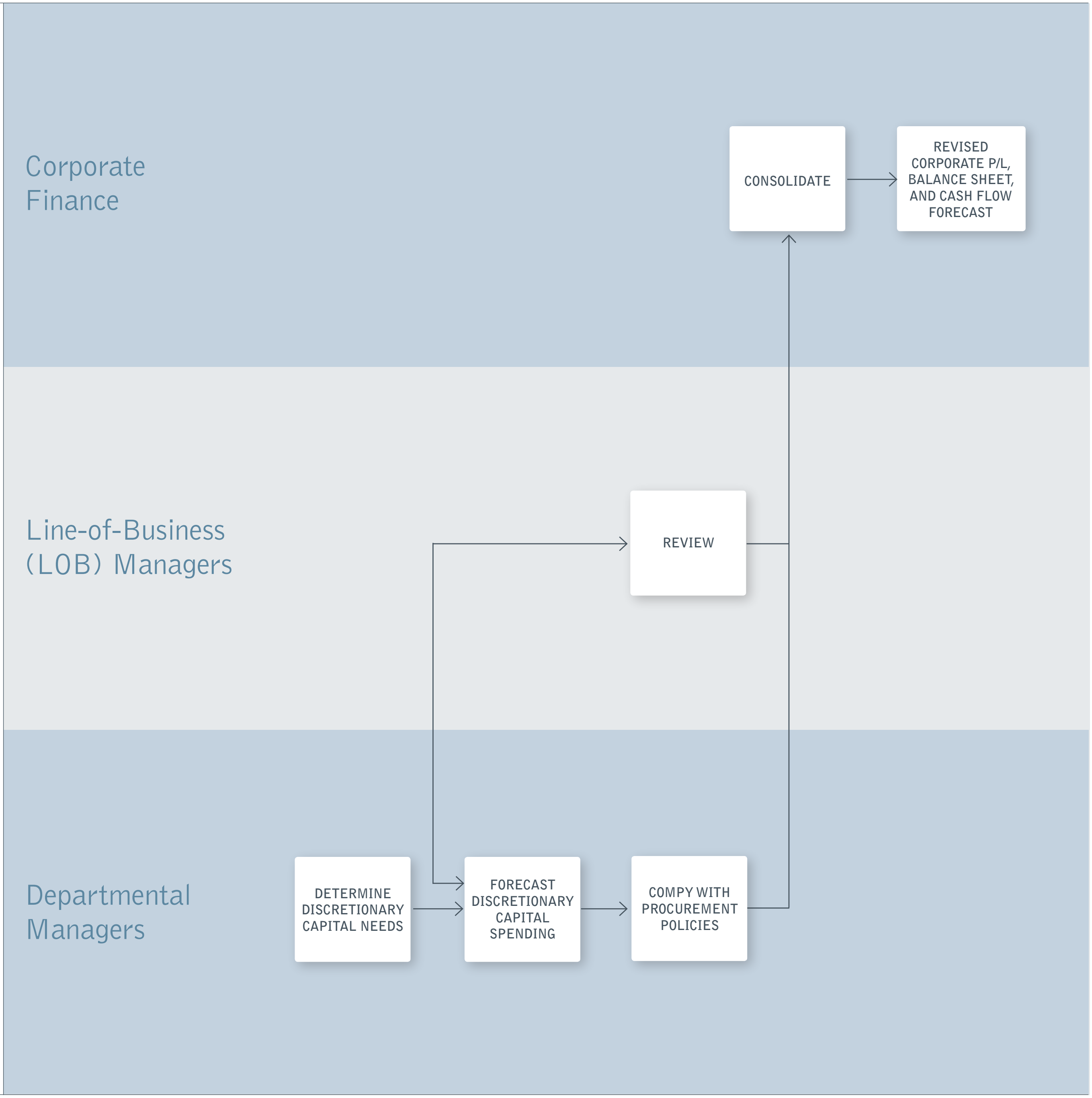
A typical workflow supporting Discretionary Capital Expenditure planning.

Many corporations update their capital spending forecasts as part of monthly financial and operational forecasting. Particularly in low-margin businesses where cash flow is managed carefully, discretionary capital expenditures need to be monitored and controlled diligently.

Cost-center managers determine discretionary capital requirements based on key business drivers. They select asset class and priority, then forecast estimated purchase price, purchase date, and in-service date. During this process, they adhere to corporate spending limits. The revised forecast is then submitted to management and corporate finance for review and consolidation into revised corporate P/L, balance sheet, and cash flow projections.

Line-of-Business (LOB) managers identify opportunities to aggregate capital spending and eliminate redundant spending across departments.

By managing capital spending diligently, corporations can positively impact cash flow.



Most companies manage Capital Expenditure Planning using asset management systems and spreadsheets which leads to error, delay, and difficulty controlling discretionary capital spending.

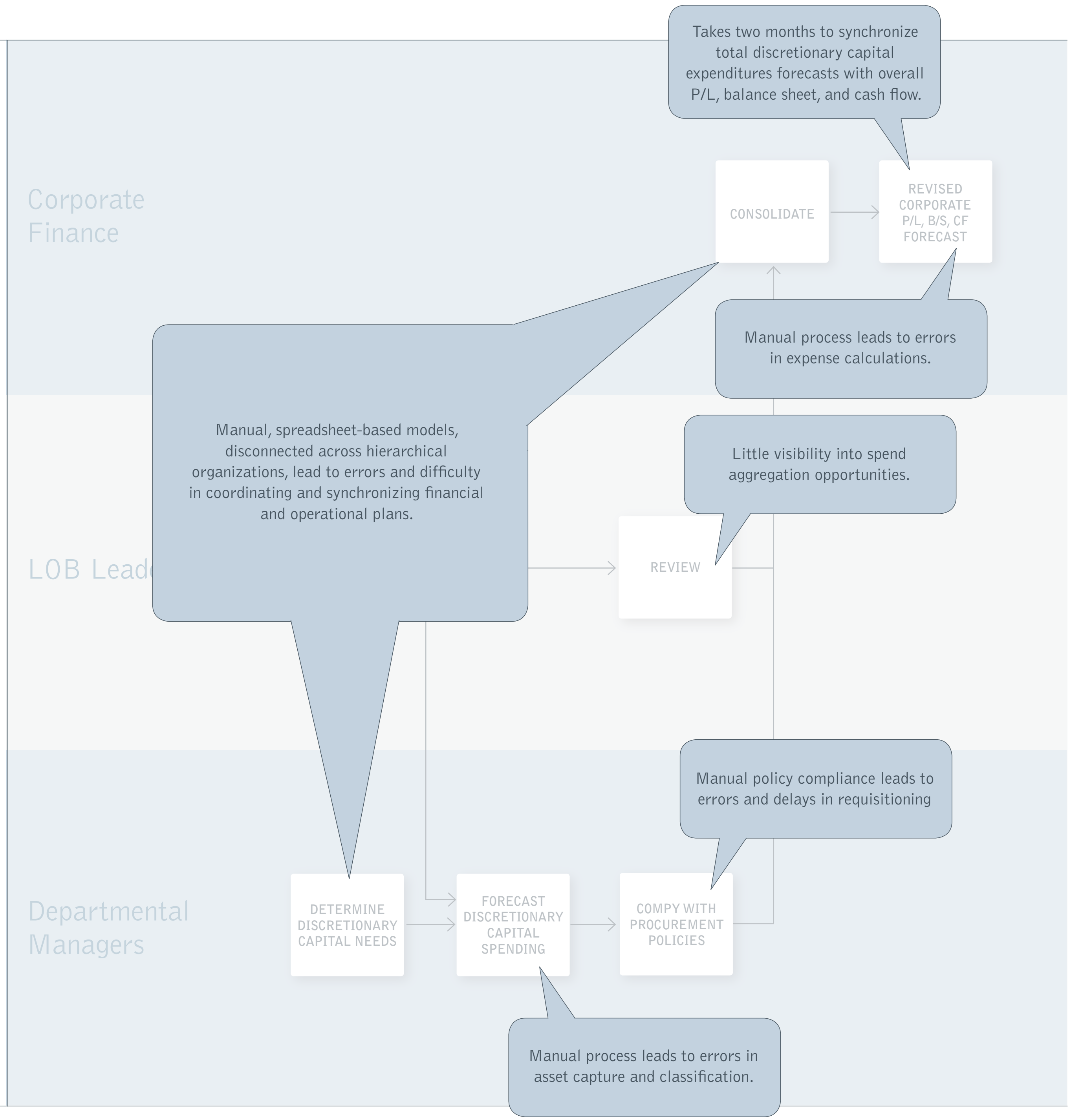
Asset management systems can effectively track capital assets history, while supplementary spreadsheets are typically used to help make capital spending projections. But manual spreadsheet-based planning can lead to error in asset capture and inconsistency in corporate classifications, where different divisions might classify the same asset in different manners.

Management has little visibility into spend aggregation opportunities, and cannot readily determine whether two departments are planning to purchase the same furniture if each department classifies the asset differently. It is difficult to aggregate the spend with a single supplier and solicit better prices, terms, and conditions. Consequently, P/L and cash-flow projections are adversely affected.

Errors can also occur in validating appropriate spending levels during the requisitioning process.

Errors often occur in the financial calculations that feed the P/L, balance sheet, and cash flow projections, which can have a major impact on businesses that need to manage cash flow tightly.

Finally, synchronizing discretionary capital spending with corporate financials can take two months or more.



High-performance companies replace the manual spreadsheet process with robust multi-dimensional modeling and integrated workflow that help reduce errors, improve control, and increase accountability.

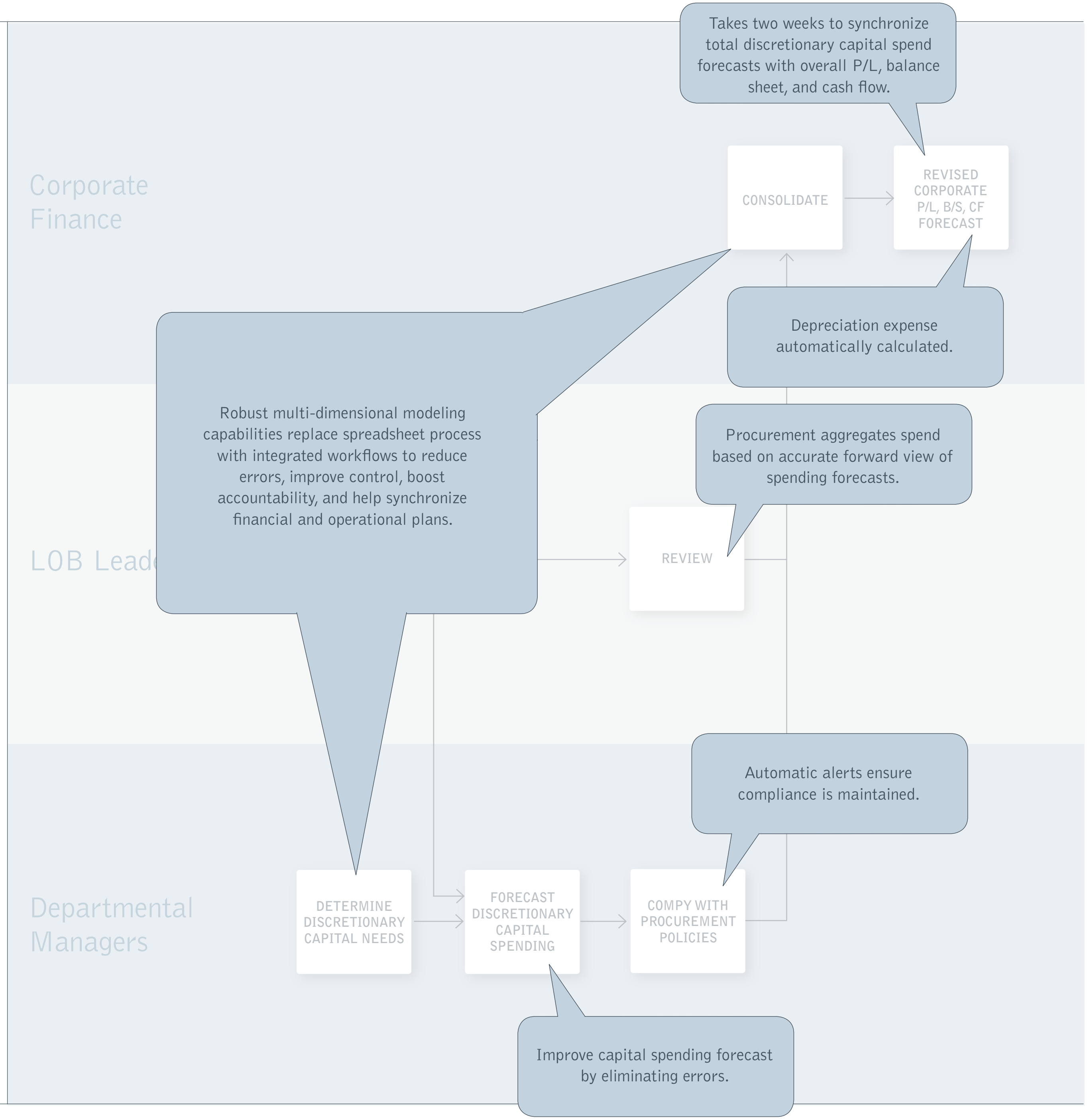
An enterprise planning system can help automate and integrate the discretionary capital spending process. Cost-center managers can quickly select the capital asset types that are consistently classified, and can easily project purchase price, purchase date, and in-service dates.

A planning system automatically creates an alert if a spending limit has been exceeded, so that cost-center managers can make necessary adjustments. When the discretionary capital spending forecast is submitted to management and corporate finance for review, automated workflows monitor the process and alert reviewers of action deadlines.

Management can quickly view consolidated discretionary capital spending forecasts and identify spend aggregation opportunities.

Financial calculations are under central control and are much less likely to contain errors, while cash flow projections are more accurate and reliable.

Enterprise-wide discretionary capital spending forecasts are synchronized with corporate financial P/L, balance sheet, and cash flow projections in a matter of weeks.



The Cognos Capital Expenditure Planning Blueprints enable an integrated capital spending planning process that aligns divisional decisions with corporate financial objectives.

Pre-configured solution building blocks that:

- Pool collective best-practice knowledge
- Accelerate time-to-value
- Increase project success rate

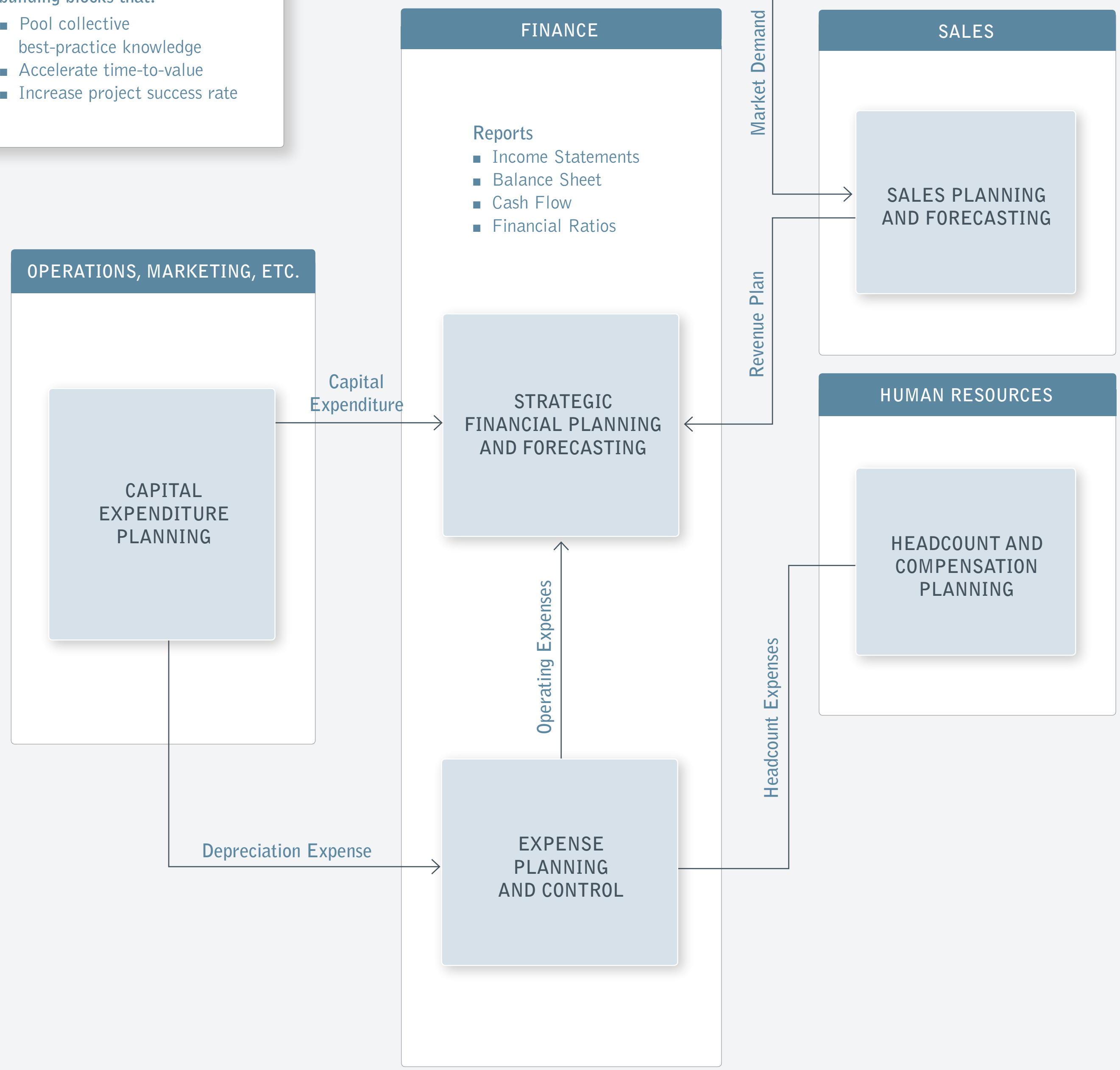
Plan-to-Perform Blueprints are pre-configured solution building blocks that allow companies to jump start implementations. Blueprints are pre-defined data, process, and policy models that encapsulate collective best-practice knowledge from the Cognos Innovation Center for Performance Management and leading customers in specific business process areas.

In the hands of Cognos Implementation Services consultants, Cognos certified implementation partners or experienced customers, the Blueprints enable streamlined project implementation schedules and improved project success rates.

Cognos Capital Expenditure Planning Blueprints:

- Discretionary Capital Expenditure Planning lets cost-center managers capture and forecast spending in a way that reduces errors, increases accountability, and heightens control. Management can review consolidated spending forecasts and identify opportunities for spend aggregation and savings.
- Capital Project Planning enables project owners to justify major capital projects and forecast project expenditures. Management can ensure that ROI measures are consistent across the corporation. And finance can rapidly perform "what-if" analysis of proposed shifts in the cost and timing of capital projects.

Finance can synchronize capital spending forecasts with corporate financials to see the impact on cash flow projections quickly and easily.



Capital Project Planning involves project justification, capital project spending projection, divisional and corporate approval, and coordination with corporate financials.

A capital project owner determines a project need based on key business drivers such as long term sales forecasts or long-term capacity plans that may have been approved by executive management during the strategic planning process. The project owner justifies the project based on a set of corporate ROI measures.

Companies use a variety of justification methodologies such as payback period, internal rate of return, and net present value. During the process, the project owner creates a capital project spending projection based on asset types, estimated costs, purchase dates, and in-service dates. The completed project requisition is reviewed by divisional management and finance. Finance adjusts the timing and amount of capital outlays to align with division financial objectives.

Corporate finance consolidates the capital project proposals from all divisions, then executive management reviews and grants final approval to the prioritized project list.

Finally, corporate finance revises income statement, balance sheet, and cash flow projections.

CREATE CAPITAL PROJECT JUSTIFICATION AND REQUISITION

- Cost-center manager determines capital project needs based on key business drivers like sales forecast or long-term capacity plans.
- Justifies project based on consistent corporate ROI measures.
- Creates capital project spending forecast.

SECURE DIVISIONAL APPROVAL

- Cost-center manager submits capital project requisition.
- Divisional finance adjusts spending amounts and timing.
- Approval granted at divisional level.

DEVELOP CONSOLIDATED CORPORATE CAPITAL PLAN

- Corporate finance creates consolidated corporate capital project plan.

SECURE CORPORATE APPROVAL

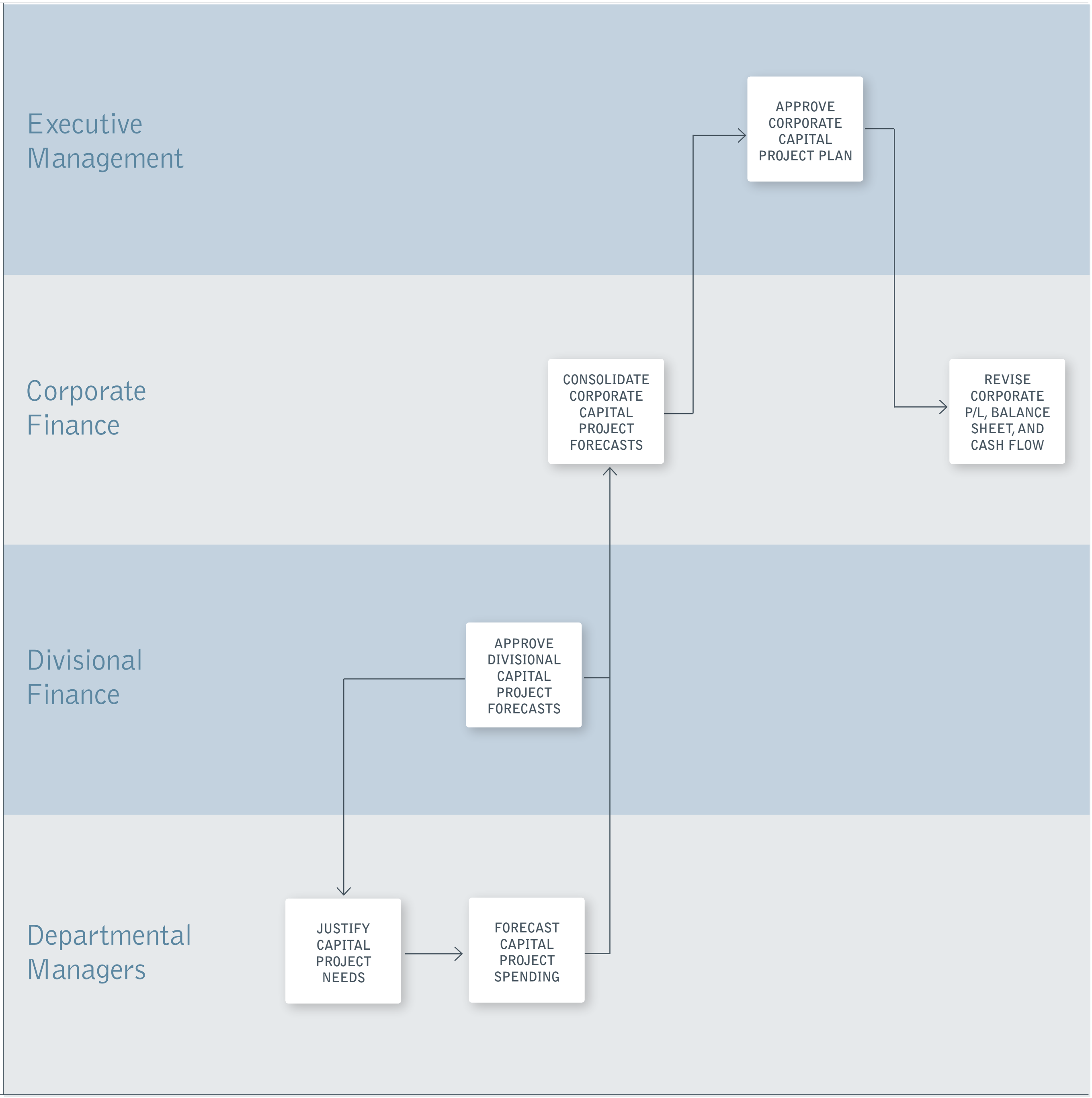
- Capital project review committee grants final approval.
- Corporate finance revises the corporate P/L, balance sheet, and cash flow forecasts.

Typical workflow supporting Capital Project Planning.

Executive management periodically approves capital project spending plans. Divisional proposals are evaluated for strategic or tactical impact and weighed against a range of alternative ROI measures. Final decisions can have long-term consequences on corporate cash flow. For example, the risks associated with a multi-million dollar production or distribution facility expansion must be carefully measured against potential returns and benefits.

The project owner must diligently justify the proposed project against a consistent set of ROI measures. The owner then creates a detailed capital project projection based on asset types, estimated procurement prices, and in-service dates. Divisional management and finance review the proposal and finance adjusts timing and capital spend amounts to fit the overall divisional financial picture.

At the corporate level, finance gathers all capital project proposals from across all divisions. After final approval by executive management, corporate finance updates corporate P/L, balance sheet, and cash flow projections.



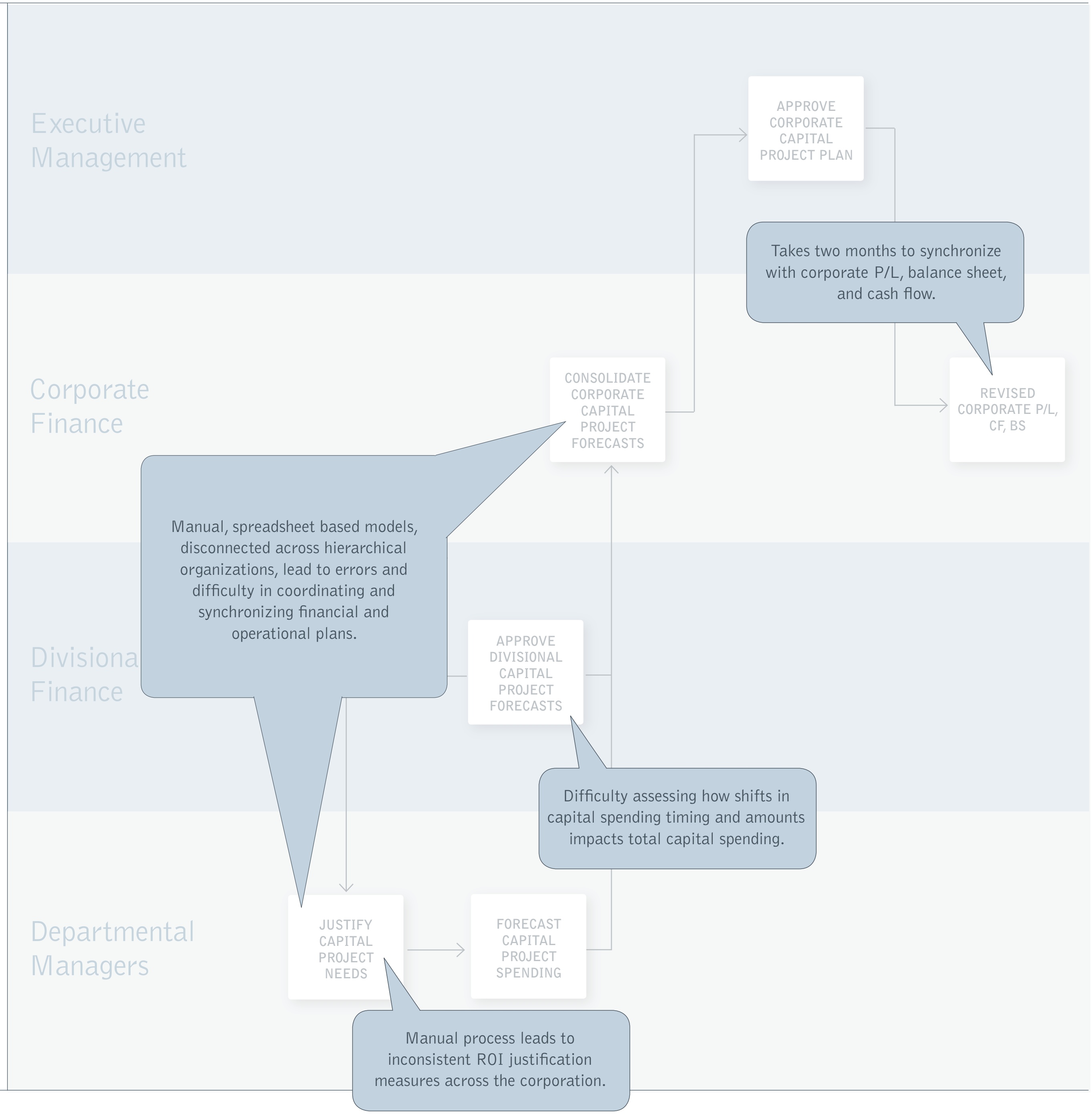
Most companies use a manual, spreadsheet-based process. The typical result: error, delay, and difficulty in aligning divisional capital project decisions with overall corporate financial objectives.

One impact of the manual, spreadsheet-based planning process is difficulty in ensuring a consistent set of ROI measures across all divisions of a corporation. By the time an inconsistency is identified at the corporate level, the entire project proposal has already been created and reviewed at the division level. Time is wasted, and the opportunity cost of starting the project on time is magnified.

Divisional finance has difficulty assessing how shifts in the timing and amount of capital outlays impact the overall financial picture.

Corporate finance has difficulty rolling up capital project plans company wide. The spreadsheet-based process is cumbersome, time-consuming, and error-prone.

After executive management approval, finance struggles to incorporate capital expenditures into corporate income statement, balance sheet, and cash flow projections. Even the smallest error can have a significant negative impact on cash flow.



High-performance companies replace the spreadsheet process with robust multi-dimensional modeling and integrated workflow to reduce error, improve control, and enhance accountability.

Using enterprise planning, companies can ensure a consistent set of ROI measures. Project owners justify capital projects based on the same set of criteria, which reduces error and time-loss in the downstream process.

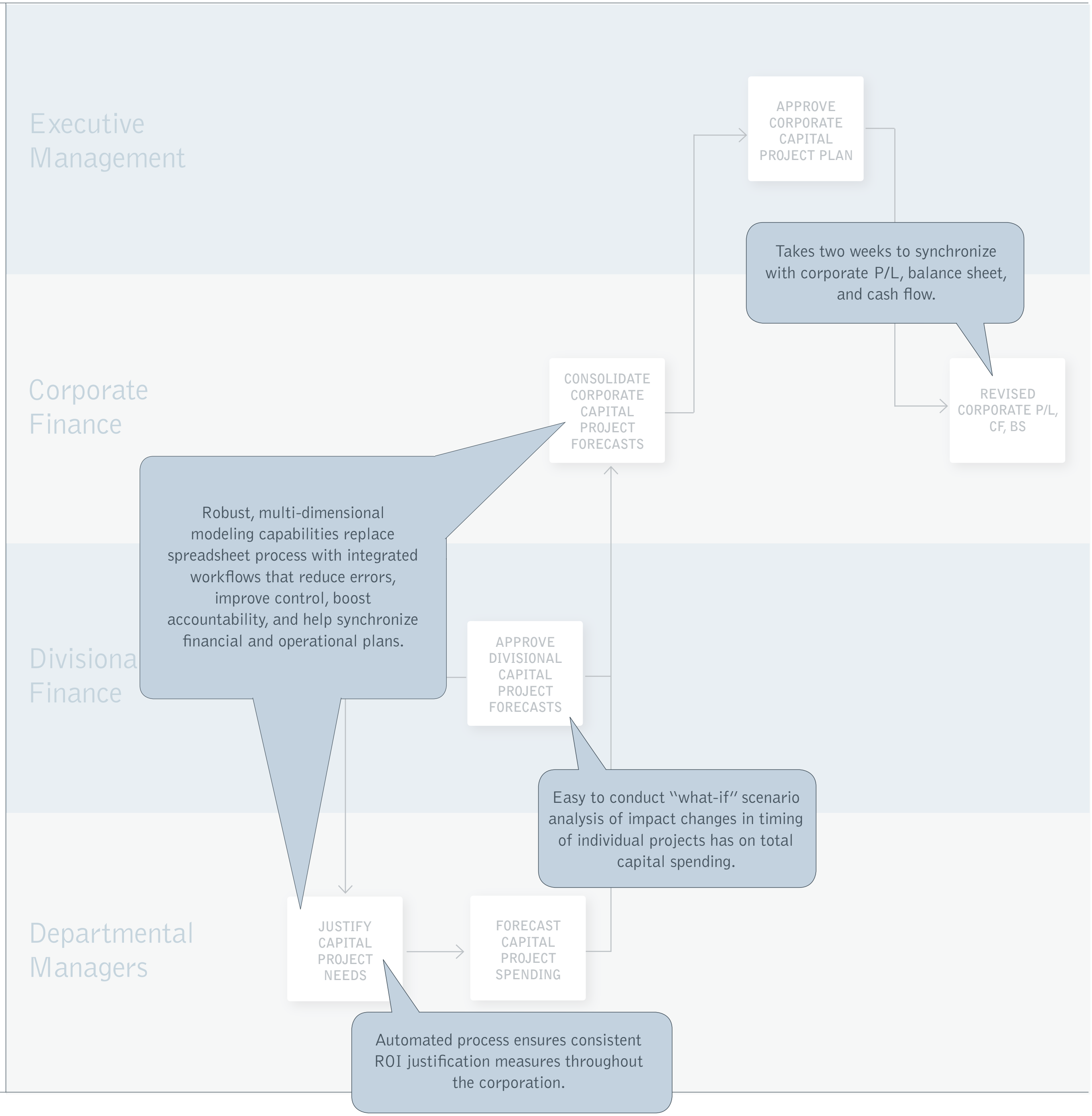
Project owners can easily model capital project elements, selecting the right asset types and projecting costs over an appropriate time horizon.

Divisional finance can easily perform "what-if" analysis to assess the impact of changes in the timing or amounts of capital outlays to ensure that cash projections fit the divisional financial picture.

Corporate finance can readily consolidate all capital project plans from across all divisions.

After approval by executive management, corporate finance can easily create revised income statement, balance sheet, and cash flow projections.

The whole process now takes only a few weeks and is much more reliable.



Consider how the Cognos Plan-to-Perform Blueprint can help a corporation approve a new distribution center and incorporate the investment impact into its financials.

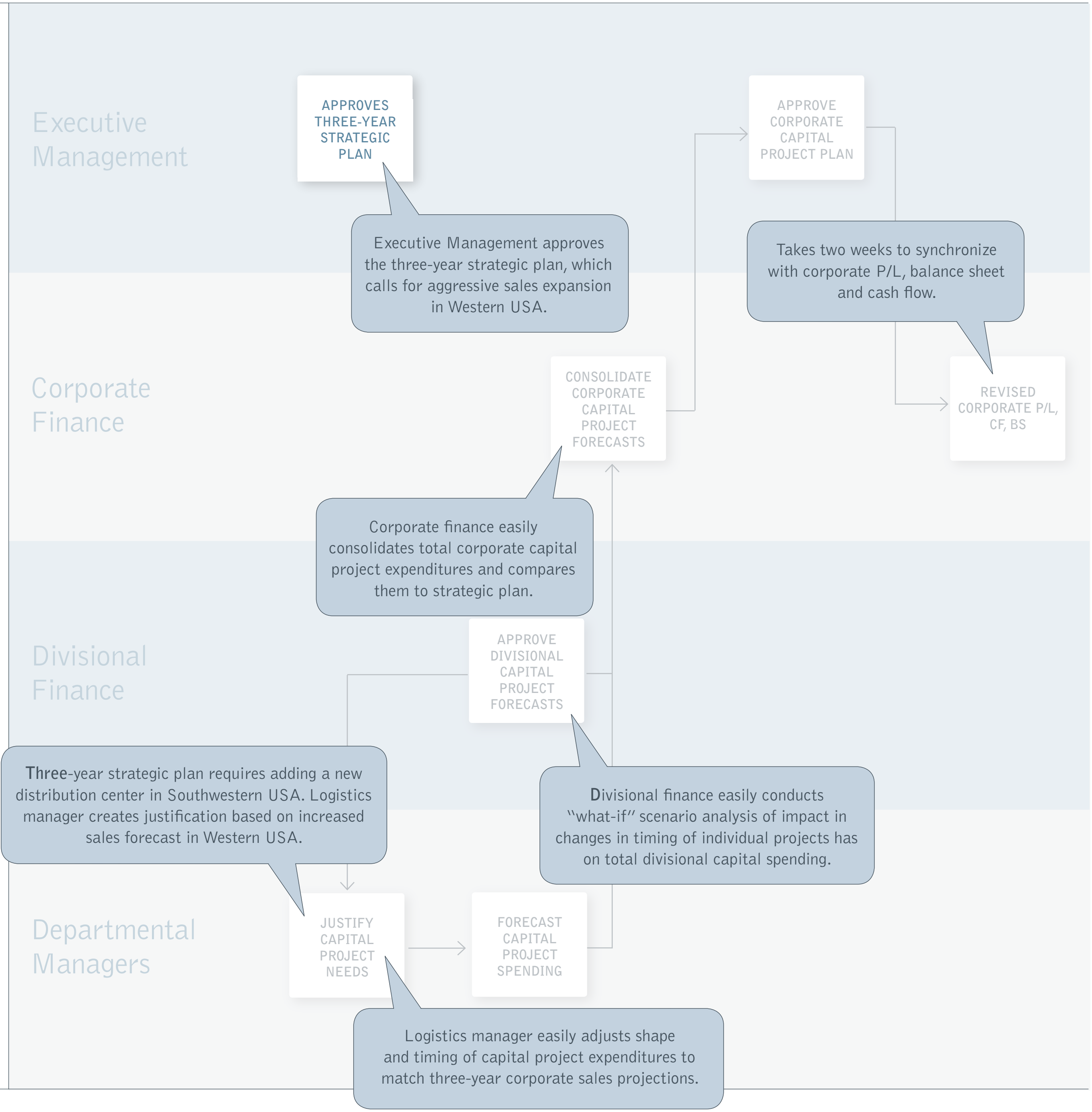
A retailer anticipates significant same store sales increases in the Western USA region over the next three years. The logistics manager recognizes the need for a new distribution center to support a sales increase, and justifies the capital project based on a consistent set of ROI measures across the entire corporation.

The logistics manager rapidly adjusts the shape and timing of the expenditures to match the three-year sales projections.

Divisional finance reviews various capital outlay scenarios in order to align the project expenses with divisional financial objectives.

Corporate finance consolidates total capital project expenditures from across all divisions and compares them to the strategic plan.

After executive management approval, corporate finance can easily revise the corporate P/L, balance sheet, and cash flow projections for the next twelve months, paying special attention to the cash flow impact of the newly approved distribution center.



The Capital Expenditure Planning Blueprint is based on proven best practices from companies like Deluxe Corporation, who implemented Cognos Planning to improve its budgeting and project planning

Deluxe Corporation is the largest supplier of checks in the United States, providing check printing services for 10,000 financial institutions and selling direct to small businesses and consumers.

The spread of ATMs, increasing use of credit and debit cards, on-line banking and payment, and consolidation in the financial services industry have increased pressure to reduce prices. Deluxe's strategy is to focus on customer retention and improve customer profitability through ongoing cost containment.

Deluxe has used Cognos Planning to improve the value of its planning and budgeting process. Eliminating spreadsheets has streamlined planning and reporting cycles, allowed more time for analysis, and enabled deeper visibility into corporate performance. Expanded participation in the planning process has increased accuracy, enhanced sense of ownership and buy-in, and fostered greater accountability.

Deluxe Corporation has also used Cognos Planning to promote more effective project management and support company-wide activity-based costing initiatives.

- Leading provider of printed checks and business forms
- More than 9,000 employees
- Revenues $1.57 billion

BUSINESS CHALLENGES

- Evolving business model spurred by industry regulation
- Internal strategic and organizational shifts to drive aggressive growth
- Need more effective cost control
- Spreadsheet-based process slow and inefficient
- "Finance-driven plan" lacked true collaboration and buy-in

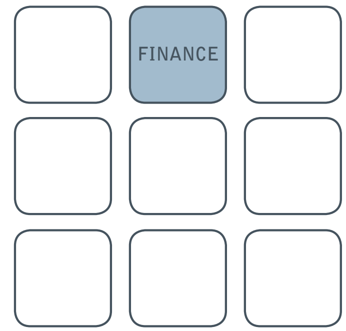
SOLUTION APPROACH

- Cognos Planning to improve planning, budgeting and forecasting process. Integration of revenue reporting, project management, strategic planning, and activity-based costing into overall process

BUSINESS VALUE DERIVED

- Reduced annual operating plan cycle time by 75 percent
- Enabled 15-month rolling forecasts updated quarterly
- Improved accountability and forecast accuracy
- Improved project management

COGNOS SOLUTION MAP



"We use planning to manage project forecasting—initiatives like 'Deluxe Select.' Now we can have the program managers involved, working directly with finance, to input their forecast. We roll all this up to be sure we have the cash for capital expenditures. The other thing is—we make our project managers more accountable. If you say 'we're going to save X amount of dollars' in your forecast, we're going to hold you to it."

— **SENIOR FINANCIAL ANALYST**
Deluxe

COGNOS | INNOVATION CENTER
for Performance Management™

The Cognos Innovation Center for Performance Management is dedicated to the understanding, adoption, and implementation of next-generation planning and performance management practices. It is a consortium of industry leaders, practitioners, thought leaders, forward-looking executives, and technology experts experienced in, and committed to, the advancement and successful application of technology-enabled performance management best practices. The Innovation Center seeks to assist organizations in optimizing the alignment of their plans, processes, and resources with corporate goals and strategies.