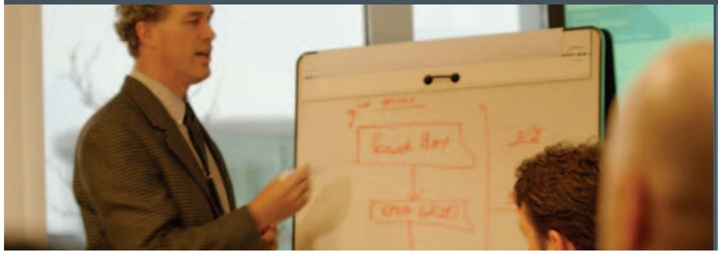
BUSINESS VALUE GUIDE
VOLUME 4

COGNOS PLAN-TO-PERFORM BLUEPRINTS

EXPENSE PLANNING AND CONTROL



COGNOS | INNOVATION CENTER
for Performance Management™

Expense Planning helps organizations use a driver-based approach to align management decisions and actions with future overhead expenditures to ensure accuracy, reliability, and control.

In uncertain economic times, companies constantly seek to improve productivity. Critical to productivity improvement is understanding and managing operating expenses. Effective expense-shifting and rapid communication are enabling some of today's highest performing companies.

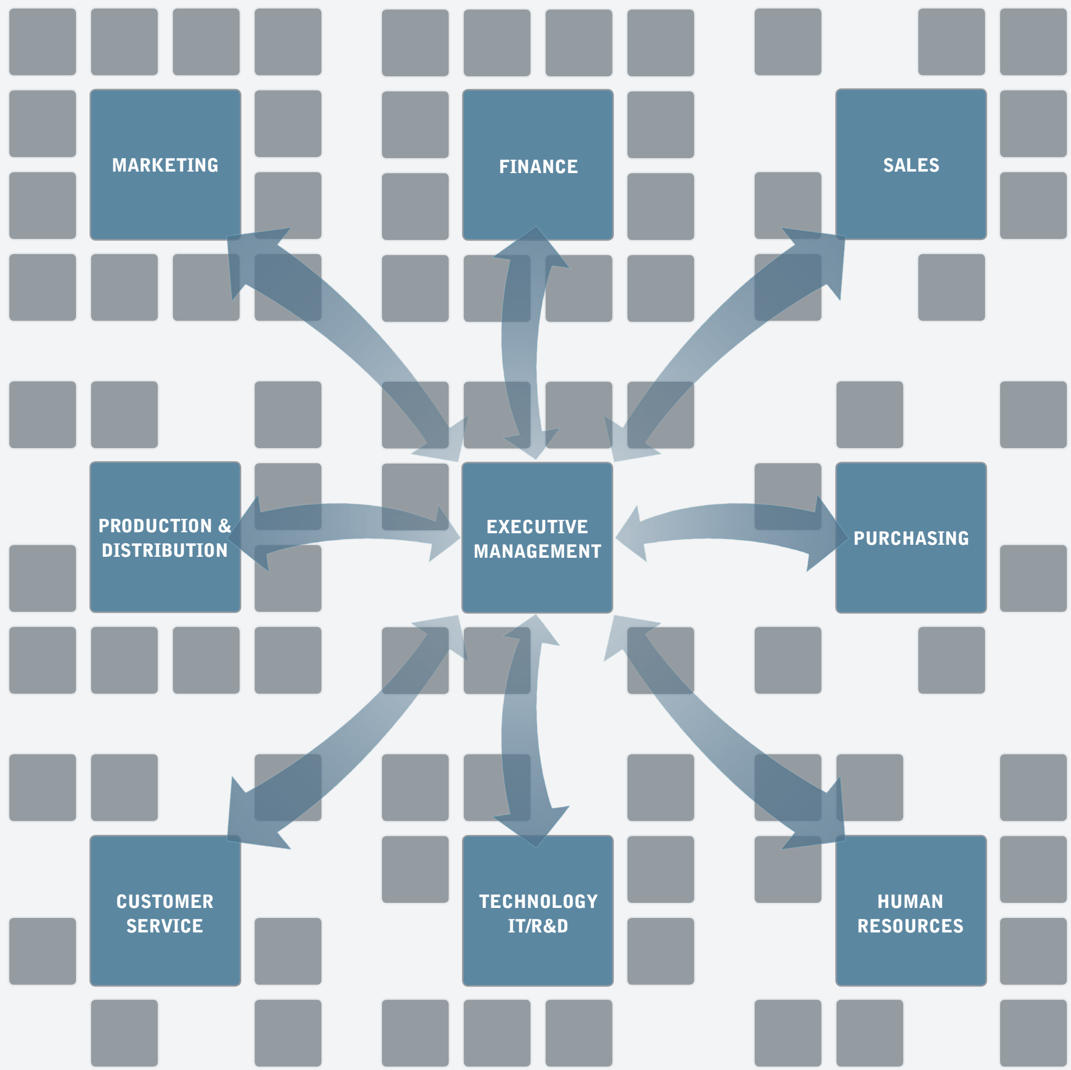
This Business Value Guide examines the Expense Planning and Forecasting process for companies looking to achieve a more meaningful and comprehensible process through driver-based planning and forecasting.

For example, companies using planning best practices link key business drivers to expenses in order to manage resources more effectively.

The planning process is characterized by the need:

- To coordinate and establish a consensus expense forecast between sales, finance, human resources, marketing, and operations.
- To understand the critical business metrics that drive expense.
- To synchronize the revised expense forecast with the corporate profit and loss statement.

THE COGNOS SOLUTION MAP



The key Expense Planning and Forecasting output is a consensus expense plan.

The Expense Planning and Forecasting process does not exist in isolation. Revenue plans may flex expenses en route to achieving margin targets based upon strategic goals, while headcount and other business metrics may serve as drivers for a number of expense lines.

Most experts agree that planning, budgeting, and forecasting typically involve too much detail and not enough focus on the key metrics that drive expenses. Driver-based planning improves both accuracy and accountability.

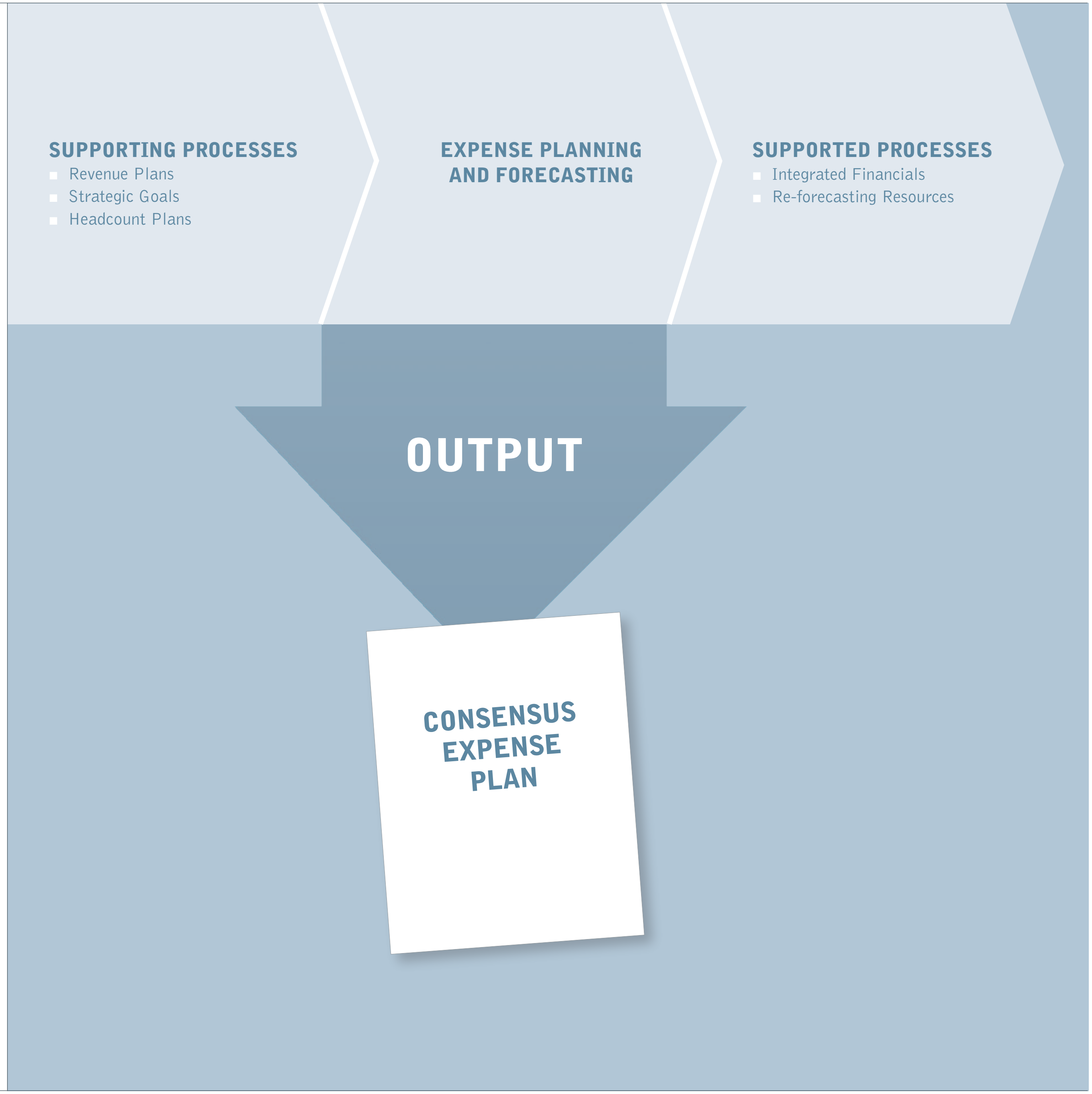
Driver-based planning utilizes common components that typically derive an expense. For example, office supply expense can be easily calculated using a volume or driver times a rate. So:

Office supply expenses = headcount (driver) x $15 (rate).

This approach is superior to simply entering dollars, since it's clear how office supply expenses are calculated. Further, modification or correction only require changing one or two numbers, which in turn roll up to alter cross-enterprise plans.

Expense Planning and Forecasting supports a number of other activities within a company. Expenses feed into a set of integrated financial statements to determine margin targets and their impact on balance sheet and cash flow. When re-forecasting, a company needs to create several expense scenarios to accurately assess proposed resource allocations.

At the end of the process, the key output is a consensus expense plan.



Proceeding from strategic objectives, key business drivers are used to create expense plans. Plans are aggregated and compared with targets to assure proper resource allocation. Targets are re-evaluated frequently to ensure optimal performance.

Companies typically create expense plans as part of their planning or forecasting cycles. Expense planning begins after a company has established strategic objectives, which are usually expressed as a set of integrated financial statements. Once the statements are distributed across the organization, operations can begin to translate goals into expense plans.

Most expense managers will need drivers—such as revenue and headcount plans—from other areas of the business. For example, revenue units may be used to drive revenue-sensitive supply expenses, ensuring that plan adjustments or re-forecasts are quick, accurate, and aligned.

Once initial expense plans are set, they are aggregated by corporate finance for comparison with company goals. Adjustments are made and resources are easily re-allocated with driver-based plans.

Finally, expense plans are measured and re-forecast as business conditions change.

INCORPORATE STRATEGIC OBJECTIVES

- Review objectives to establish baselines

PLAN EXPENSES AT OPERATIONAL LEVEL

- Incorporate other key business drivers
- Model base line expenses
- Allow for incremental changes to the baseline

DRIVE CONSENSUS

- Submit plans to corporate finance
- Validate against strategic objectives
- Adjust plans with operations

MONITOR PERFORMANCE

- Synchronize with updated operational forecasts.

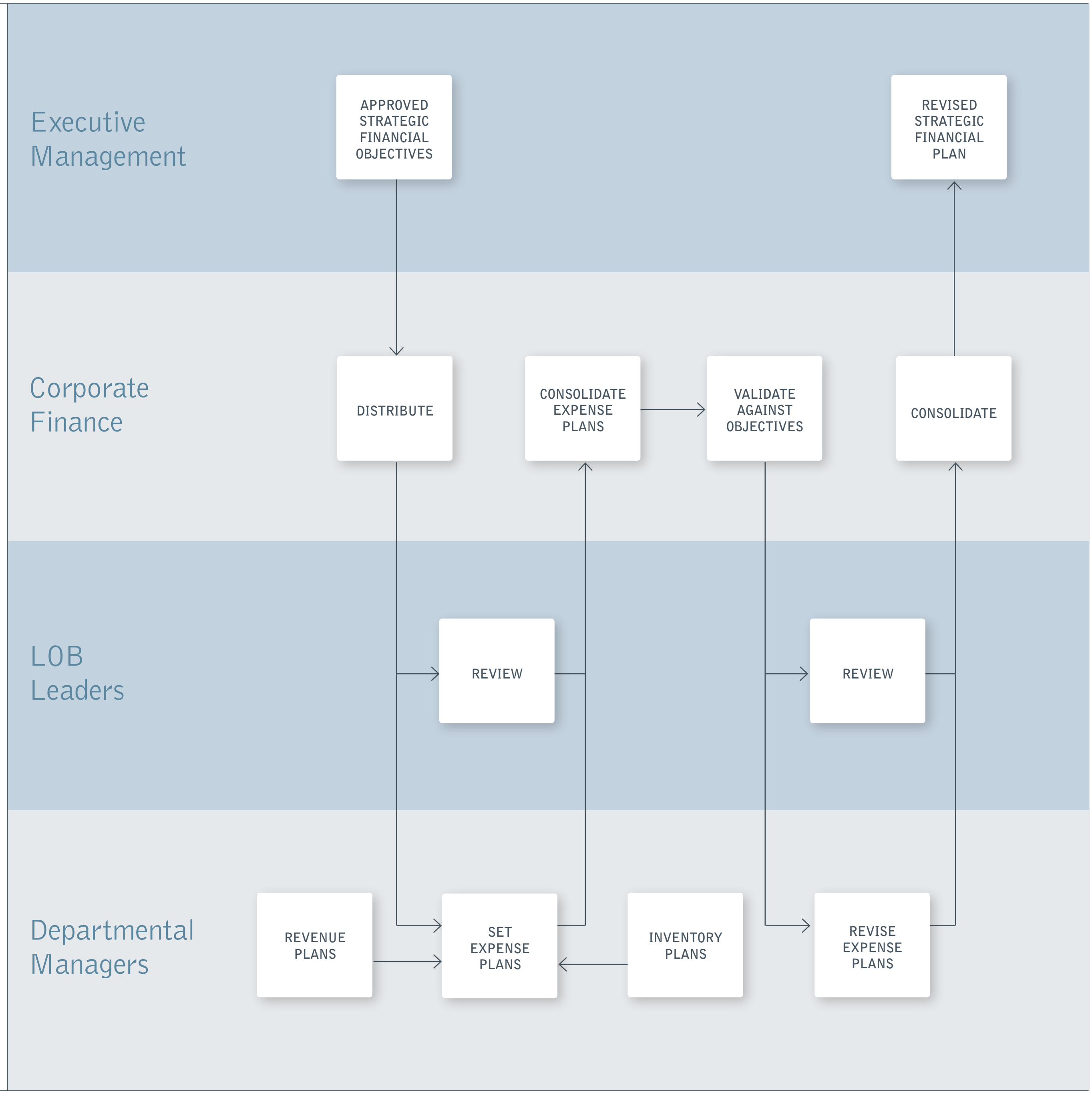
A typical Expense Planning and Forecasting process workflow.

Best-practice companies start with approved strategic financial objectives before beginning expense plans for the coming fiscal year. These objectives should clearly indicate resource priorities and key metrics in order to align operational expense plans with corporate goals.

Once operations received these goals, a number of different plans are begun simultaneously. Expense plans based upon key business drivers depend on other plans—such as the revenue plan—for completion. This ensures that expenses are rationalized and easily understood by reviewers. Once completed and reviewed, plans are submitted to corporate finance for aggregation.

Finance aggregates the figures and then validates them against strategic financial objectives. Both are checked to ensure that operational plans align with corporate goals, and that strategic financial objectives are synchronized with operations.

The process is repeated until there is alignment throughout the company.



Most companies use spreadsheets and existing general ledger applications— a lengthy, error-prone process that inhibits creation of a contextualized, accurate consensus expense plan.

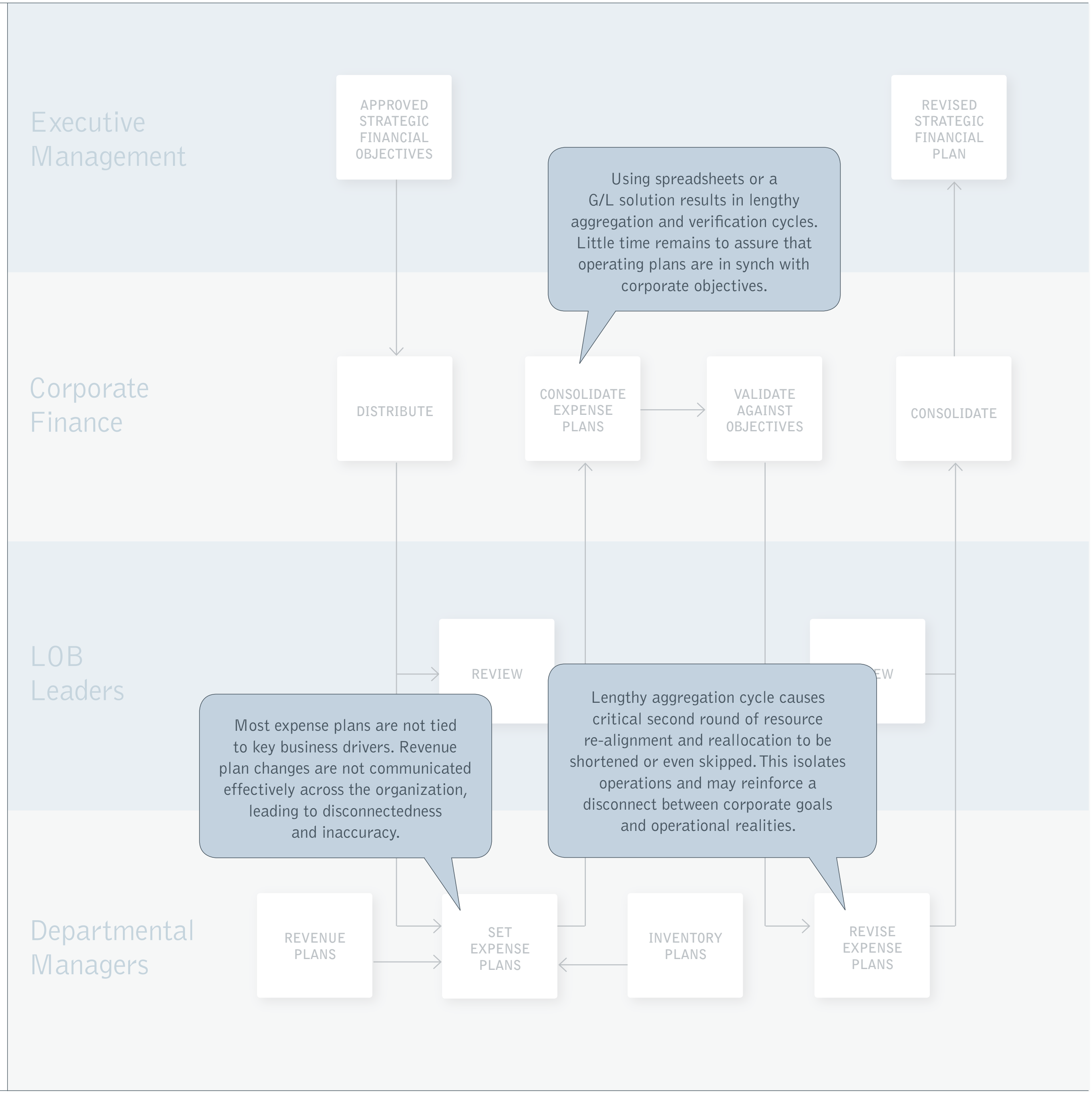
Spreadsheets offer great modeling flexibility, but are ineffective as an enterprise-wide solution. Financial ERP systems can capture individual account transactions, but cannot easily model the business much beyond general ledger accounts.

Spreadsheet and ERP systems are often used together, which only magnifies the weakness of each. The resulting process is typically lengthy and inaccurate, making it extremely difficult to derive a reliable expense plan.

Even though most organizations cut corners, they still lack the time to ensure that expense plans are synchronized with other plans—like revenue or headcount plans, for example.

Labor-intensive expense plan collection and validation leaves little time for the rest of the organization to tie operational plans back to corporate objectives. Opportunities to identify potential resource issues are lost, which diminishes accountability and reduces commitment to hitting corporate objectives.

The cycle takes so long and involves so many unnecessary resources that expense plans for the upcoming year are out-of-date by the time they are finalized and remain un-synchronized with other parts of the organization.



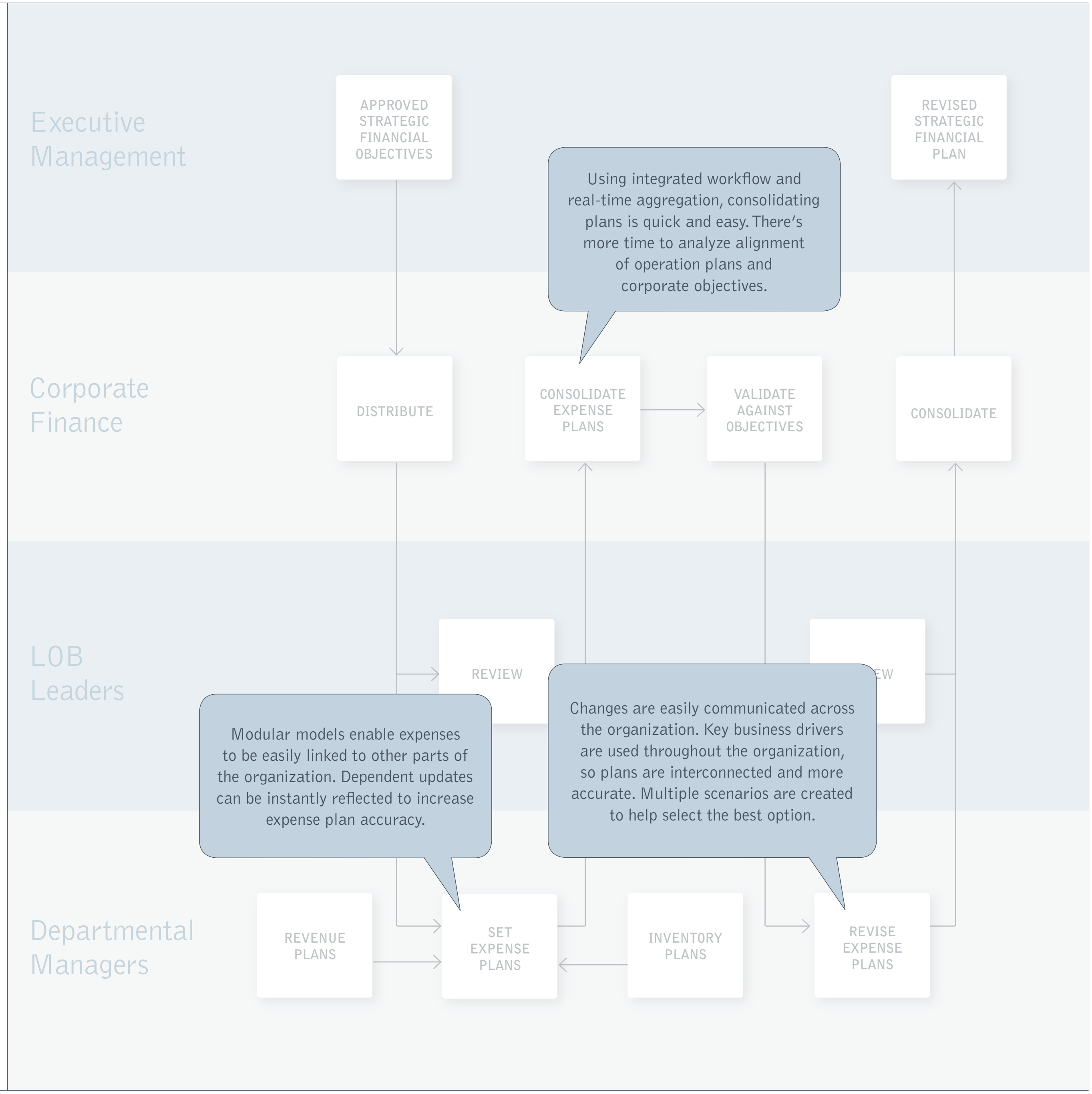
High-performance companies replace the manual spreadsheet process with robust modular modeling and integrated workflows to reduce errors, improve control, and boost accountability

Cognos Planning connects the entire enterprise using common goals and key business drivers. It ensures that the whole organization is moving in synch, and that plans are both meaningful and accurate.

As plans change at the operational level—say, variation in revenue units—they are used in driver-based plans so revenue related expenses can flex up or down. Revenue can impact headcount and in turn, other expense items such as new office supplies.

Driver-based expenses are more transparent, since numbers are based on key drivers rather than just dollar amounts. This method makes operations more agile, since complex business logic can easily be cascaded throughout the organization.

Combine more insightful response to change with integrated workflow, and plans can be completed in mere weeks rather than months. This facilitates more thoughtful analysis and discussion, especially when changes need to be communicated across the organization. Extra time allows for more "what-if" simulation to select the best plan, based equally upon on corporate objectives and operational insights.



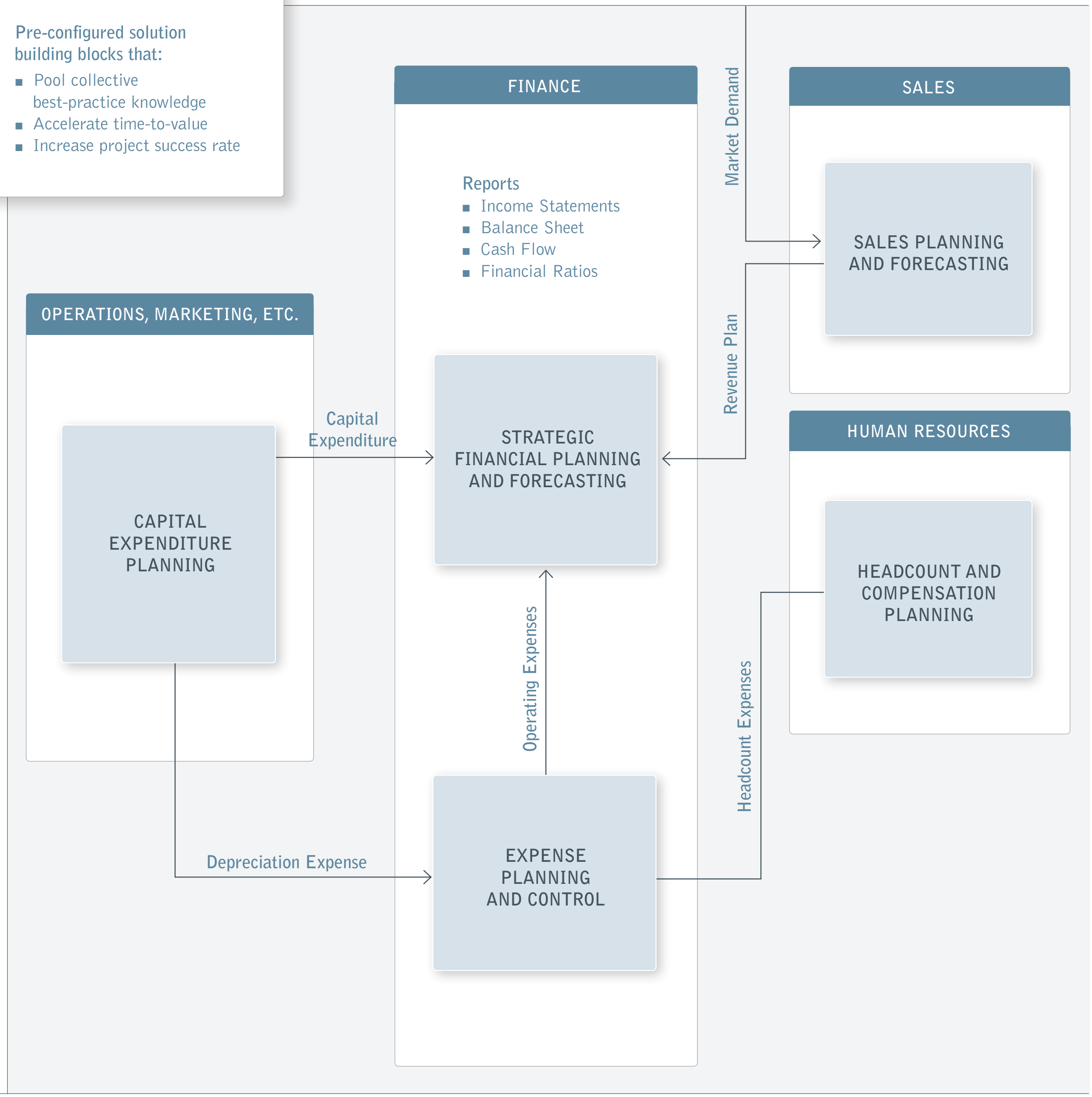
The Cognos Expense Planning and Control Blueprint enables an integrated expense planning process that aligns expense plans with corporate objectives.

Pre-configured solution building blocks that:

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

Cognos Plan-to-Perform Blueprints are pre-configured solution building blocks that allow companies to jump start their implementations. The Blueprints are pre-defined data, process and policy models that encapsulate the 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 streamline project implementation schedules and improve project success rates.

The Expense Planning and Control Blueprint enables the entire organization to create connected driver-based expense plans through an effective, intuitive, and integrated planning process. The Blueprint resolves the twin challenges of lengthy expense planning cycles and disconnected plans between functional areas and corporate objectives. It provides structure for the entire organization to ensure that expense plans are in line with corporate targets.



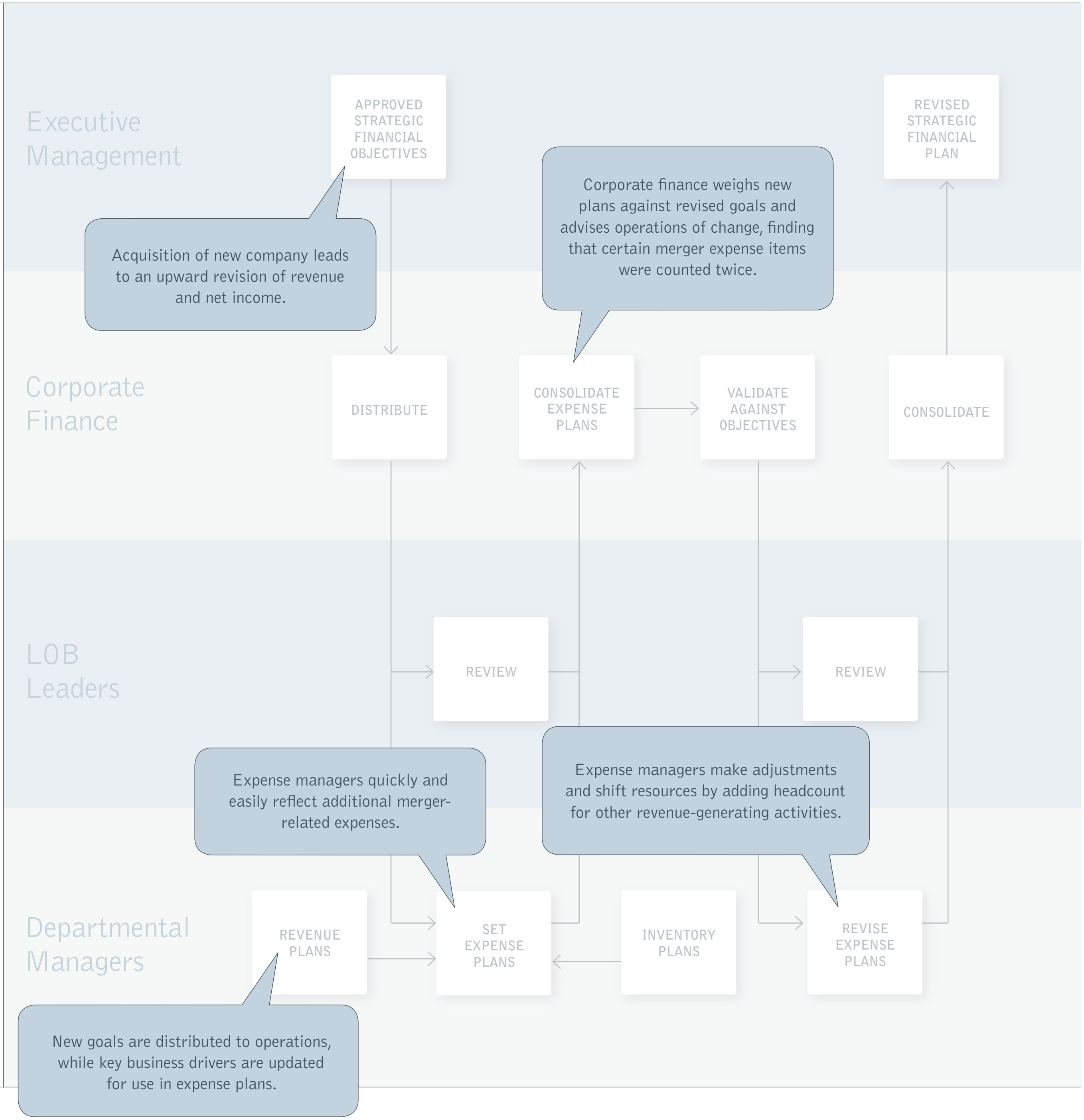
A best-practice workflow quickly captures expense forecasts "from the front lines" and provides sufficient detail to improve forecast accuracy.

A company has acquired an indirect channel for its product line, and is revising its latest strategic financial objectives. The company has increased its guidance and has also decided to reallocate some key resources to the acquisition.

New objectives are passed to operations along with a revised set of integrated financial statements. Based on these revised goals, operations can quickly revise revenue plans upwards, due to the new product distribution channel. Based on the new revenue forecasts, expense managers are given updated revenue and inventory drivers to revise expense plans. The impact of new headcount is easily incorporated as another expense plan driver. Expense managers can easily add detailed adjustments on top of driver-based expenses to enable re-allocations for merger-related activities.

New expense plans are quickly rolled up using a structured approval workflow. Plan consolidation is instantaneous, so finance can review and analyze the new forecasts in light of the latest strategic financial objectives. With more analysis time, finance realizes that too much has been allocated to certain merger-related expenses which are already accounted for. Required changes are communicated to operations, which then drops those expenses and related headcount, and requests increased headcount for other revenue opportunities.

Because the new figures meet the revised goals for revenue and margin, the updated plans can be consolidated and approved.



The Cognos Expense Planning and Control Blueprint is based on proven best practices for improving expense planning and forecasting at companies like Ace hardware.

Ace Hardware is a cooperative of more than 4,900 independently owned and operated stores in the United States, its territories, and more than 72 countries around the world. Ace saw 2002 wholesale sales of $3.029 billion and retail sales of $13 billion. Individual stores (or small chain operations) govern the cooperative through their representation on the board of directors. Some 5,000 employees service member stores.

Ace had always battled typical spreadsheet inefficiency and inaccuracy, compounded by the company's own operational complexity. Frustration levels were high.

Using Cognos Planning, Ace developed an SG&A expense planning and control solution to streamline the budget process and gain time for value-adding analysis of budget and actuals.

Annual budgeting typically requires three months, while monthly forecasting takes three weeks. Annual cycles begin in August—a month later than previously—saving valuable time and resources. Ace consolidates budget information from every area (paint, advertising, distribution, etc.) then carefully combs the budget for cost savings.

With Cognos Planning, Ace boosted expense control through improved cost-driver visibility. Overheads were reduced and savings re-allocated to improve members' marketing effectiveness.

- Hardware Stores
- Revenues $13 billion
- 5,000 employees globally

BUSINESS CHALLENGES

- Spreadsheet planning created inefficiencies and inaccurate data
- Operations were frustrated with cumbersome spreadsheets
- Difficulty keeping pace due to size and scope of the organization

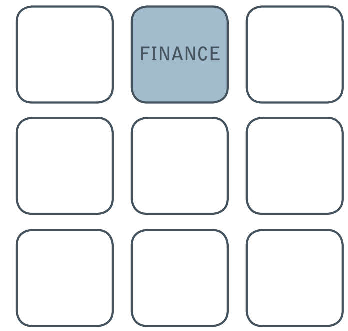
SOLUTION APPROACH

- Cognos Planning implemented to automate and integrate the expense planning and forecasting process

BUSINESS VALUE DERIVED

- Improving performance in a difficult economic climate
- Reforecast more often improving the agility of the business
- Eliminate unnecessary corporate overhead and reallocate dollars to targeted marketing programs

COGNOS SOLUTION MAP



"We can quickly respond to unfavorable results compared to the budget because we understand the controllable expenses within the budget. For example, if we lower the sales forecast, we can decide what areas to change in our operating expenses to control the bottom line. Managers are challenged on what they spend, forcing them to maintain cost controls. It has been a challenging year from a sales perspective, but we've maintained a strong bottom line because we know where we can make expense reductions and still make our bottom line results."

— MANAGER
Financial Planning and Reporting

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.