BUSINESS VALUE GUIDE
VOLUME 2

COGNOS PLAN-TO-PERFORM BLUEPRINTS

# STRATEGIC PLANNING & FORECASTING

MULTI-YEAR PLANNING & INTEGRATED FINANCIALS

COGNOS | INNOVATION CENTER
for Performance Management™

Strategic Financial Planning and Forecasting aligns strategic and financial objectives used to synchronize and coordinate operational plans across the enterprise.

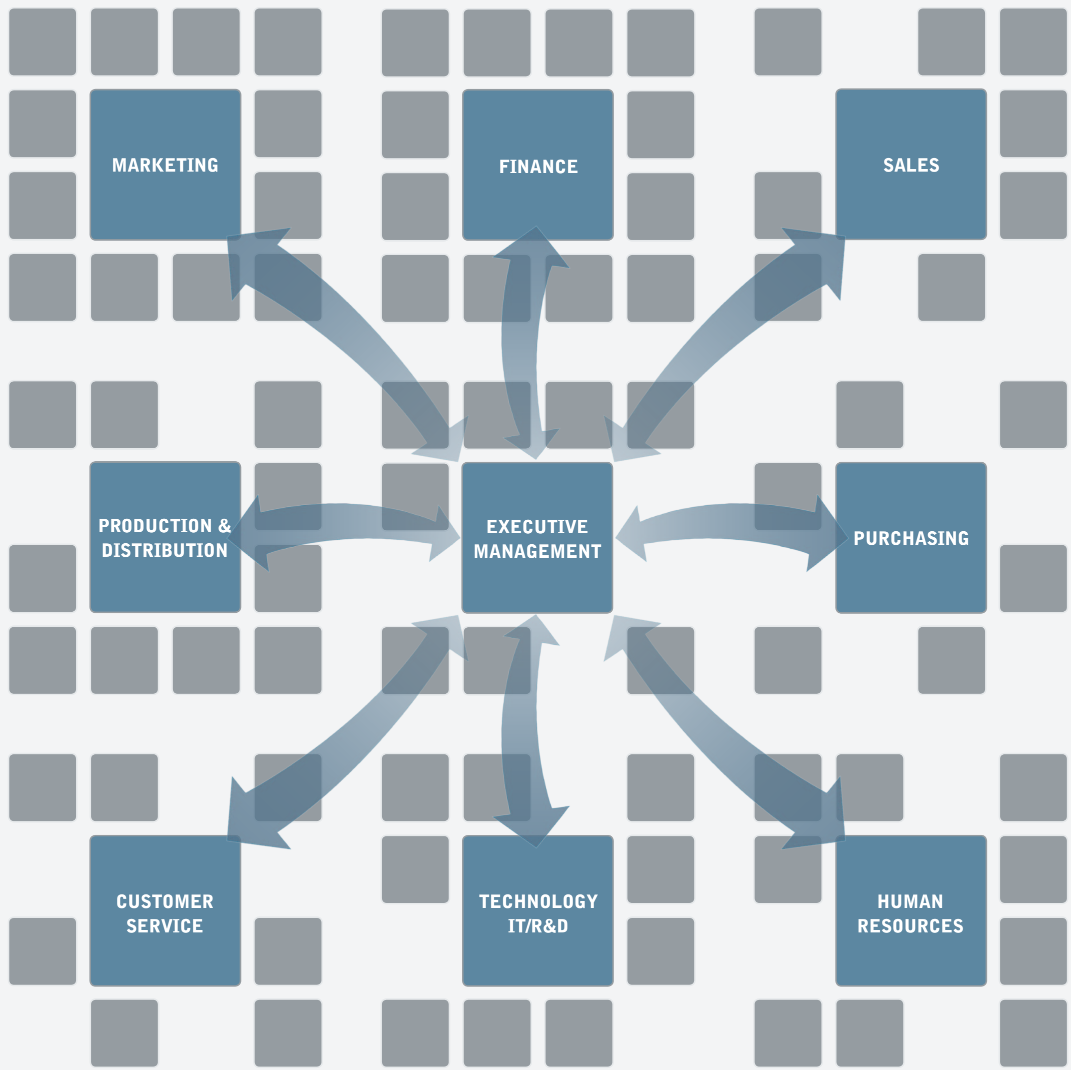
A strategic plan helps companies establish guidelines for developing operational and financial plans. Key corporate objectives are rationalized and capital investments are considered. Objectives are translated into tangible financial targets. Investment decisions and targets lead to creation of an integrated financial statement that links strategic goals to financial metrics. Then the entire organization rallies behind these objectives and targets.

The focus is on creation of integrated financial statements and their links to operational plans. For example, a company offering certain customers more liberal payment terms to increase sales forecast revenue must also evaluate impacts on cash flow.

The overall process is characterized by the need to:

- Establish relationships between profit metrics and cash flow needs.
- Synchronize operational plans with integrated financial statements to understand their impacts on the balance sheet and cash flow.
- Quickly model alternative business scenarios to make optimal investment decisions.

## THE COGNOS SOLUTION MAP



# Key Strategic Planning and Forecasting outputs are a consensus income statement, balance sheet, cash flow, and resulting financial metrics.

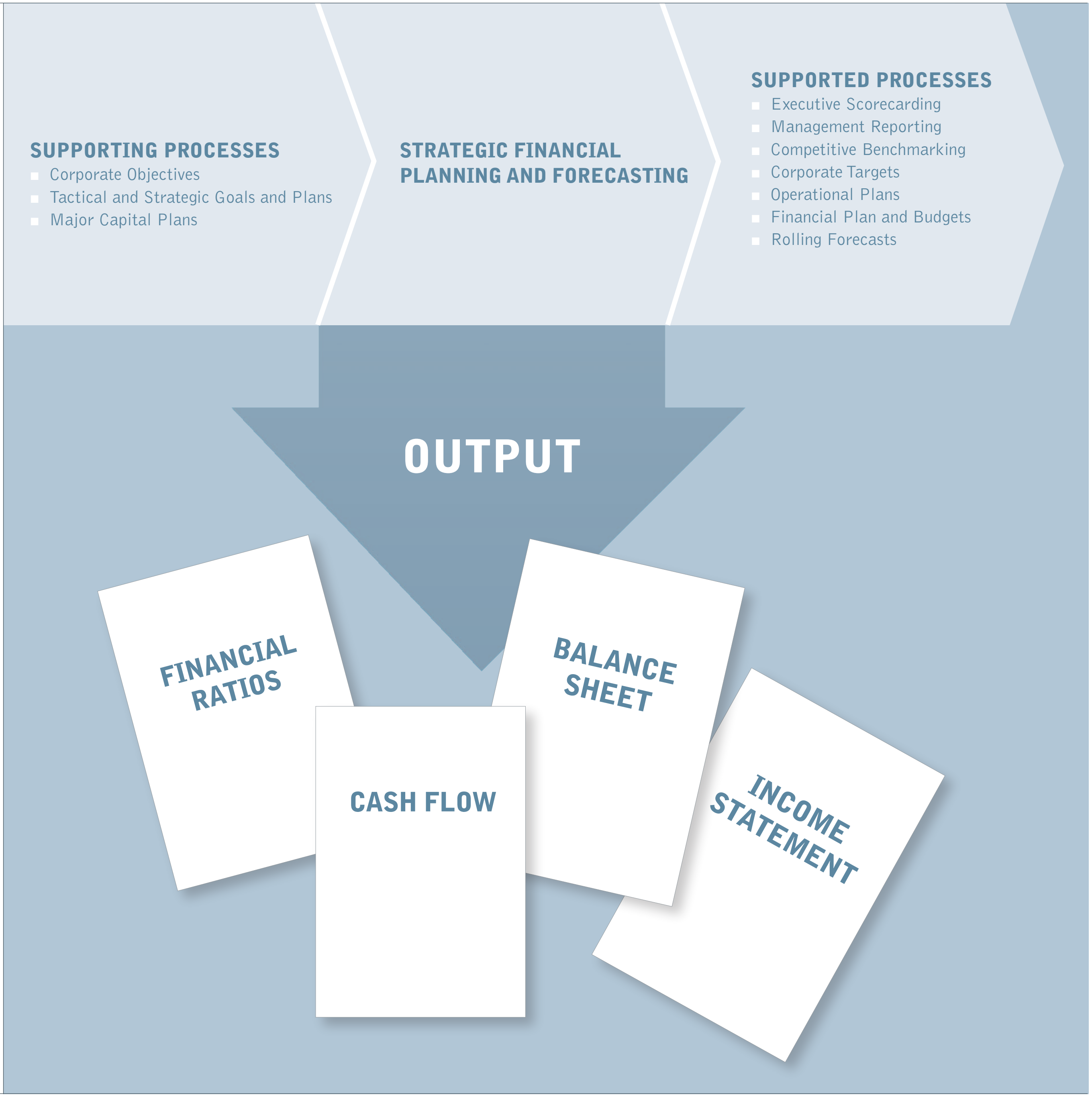
Strategic planning entered the corporate consciousness after World War II, during which the scope and pace of warfare had demanded achieving objectives through proper resource allocation. Strategic planning comprises three activities:

1. Set objectives
2. Set tangible targets
3. Measure and adapt

Corporate objectives and strategies for upcoming and future years are translated into tangible targets—for most corporations, a set of financial statements that includes an income statement, balance sheet, cash flow, and key ratios/ metrics. The statements should be integrated, so that any change in underlying assumptions ripples through all of them: DSO (days sales outstanding) assumptions affect the balance sheet as well as cash position; revenue plan assumptions affect balance sheet and cash flow, and so on. Because such targets are frequently iterated, accuracy is increased.

In high-performance companies, financial statements are the baseline for measuring results, and are dynamic documents in constant use, not mere reports collecting dust on a shelf.

Strategic Financial Planning and Forecasting establishes the targets and metrics used to measure organizational success. Response to changing business conditions is usually expressed as an updated forecast. As forecasts change, integrated financial statements can be instantly updated to see the impact on key strategic objectives such as DSO and cash flow per share.



## The process begins with setting strategic objectives expressed as financial targets or goals to establish operational plans, budgets, and forecasts.

Companies that plan, budget, or forecast in any manner start with establishing strategic objectives for the upcoming year to three to five years out. Objectives are discussed and finalized, then expressed as a set of tangible targets in the form of financial statements—initially an income statement. Revenue targets are modeled based on agreed-upon strategic objectives, then measured against profitability objectives to identify margin requirements. Resources can now be properly allocated throughout the company.

As income statements are finalized, they're tied to a model that includes a balance sheet and cash flow. Accounts receivable, accounts payable, and major capital expenditures are modeled to analyze key metrics. Best-in-class companies iterate scenarios between the income statement, balance sheet, and cash flow to ensure that an integrated view is taken when planning for the upcoming fiscal year.

When integrated financial statements are validated, they are used as targets to build corporate operational plans, which are then linked back to integrated financial statements to validate targets. Changes to plans or targets are reflected in integrated financials to increase chances of reaching strategic goals.

After strategic financial plans are agreed upon, the entire organization can monitor key metrics to evaluate and adjust operational performance. Operational decisions are tied to corporate objectives as business drivers are translated into a forecast, and strategic plans are adjusted as business conditions change.

### STRATEGIC OBJECTIVES

- Model strategic objectives
- Mergers and acquisitions
- Major capital expenditures
- New products
- Product consolidation

### MANAGE INCOME STATEMENT

- Executive management establishes revenue and profit baseline.
- Create strategic objectives
- Establish revenue and profit targets
- Model revenue and profits
- Revise income statement as business conditions change

### MANAGE BALANCE SHEET AND CASH FLOW

- Model capital expenditures
- Model accounts payable
- Model accounts payabel
- Model stockholder equity
- Manage balance sheet
- Manage cash flow
- Iterate

### LINK OPERATIONAL PLANS

- Synchronize with updated operational plan forecasts.

### MONITOR KEY FINANCIAL RATIOS

- Identify key performance indicators (e.g. revenue per sales rep, revenue per square foot)
- Distribute to stakeholders
- Iterate

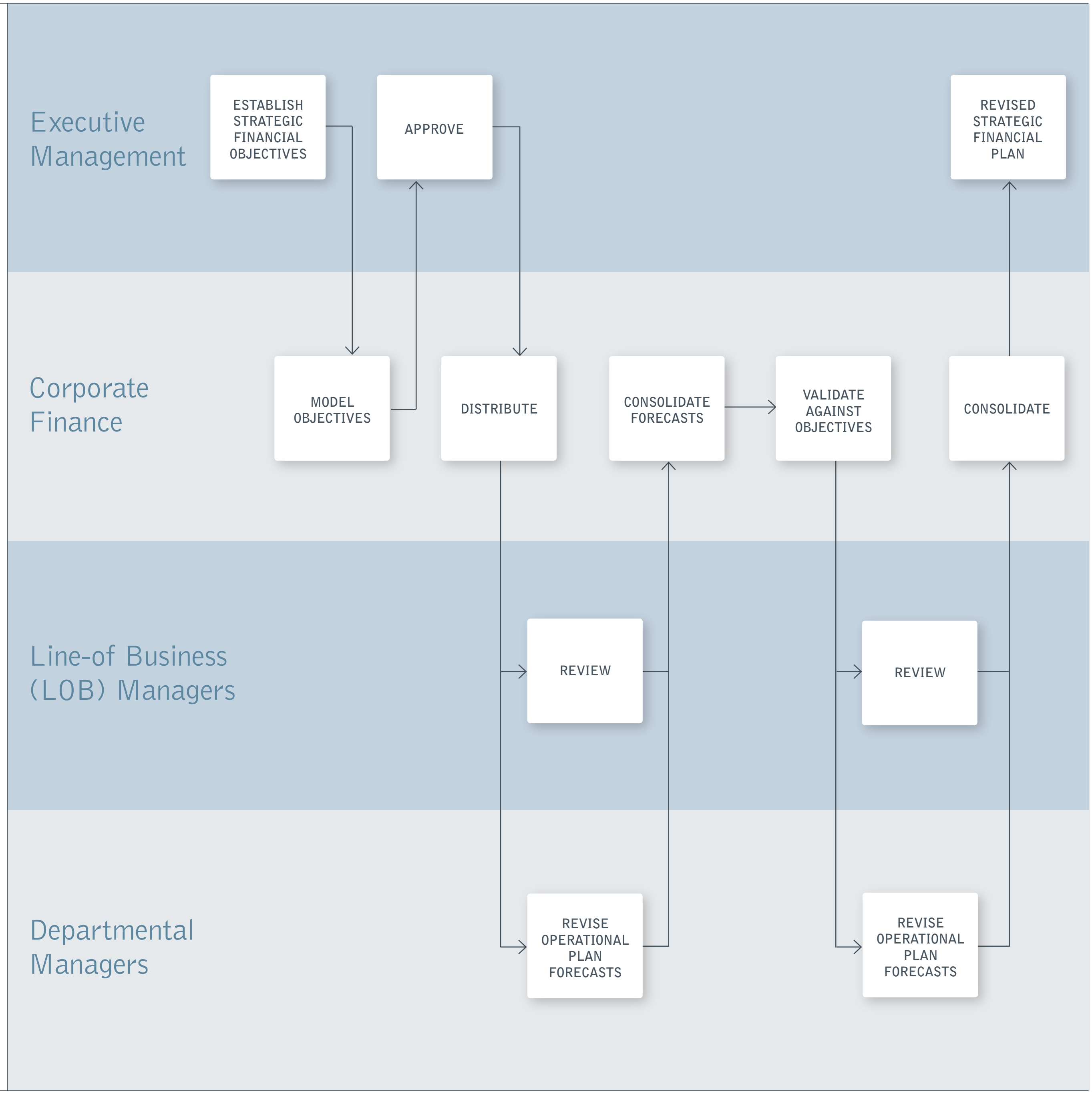
# A typical workflow supporting Strategic Financial Planning and Forecasting.

The process typically starts by establishing strategic objectives, which are typically associated with near- and long-term goals (3 to 5 years) and usually linked to hard tangible targets. Objectives are then modeled using an integrated financial statement. Revenue, profitability, and cash flow are taken into account, as are key financial and non-financial metrics. Once models are completed, senior management reviews them, frequently in concert with the board of directors. After approval, statements are distributed across the organization as a set of financial targets.

The rest of the organization uses the targets to create tactical operational plans for the upcoming year. Plans are typically driver-based and linked to key business factors such as number of units sold, product mix, and so on. Once plans are reviewed and approved, they are tied back to integrated financial statements to ensure they meet corporate objectives.

Through a series of iterations, company resources and plans often shift in order to meet strategic objectives. Throughout the process, operational plans need to be continually translated into a set of financial numbers.

Strategic goals and objectives may need adjusting as operations provides a clearer picture of what is achievable with the resources at hand. The association between integrated financial and operational plans leads to alignment and commitment to reach corporate objectives.



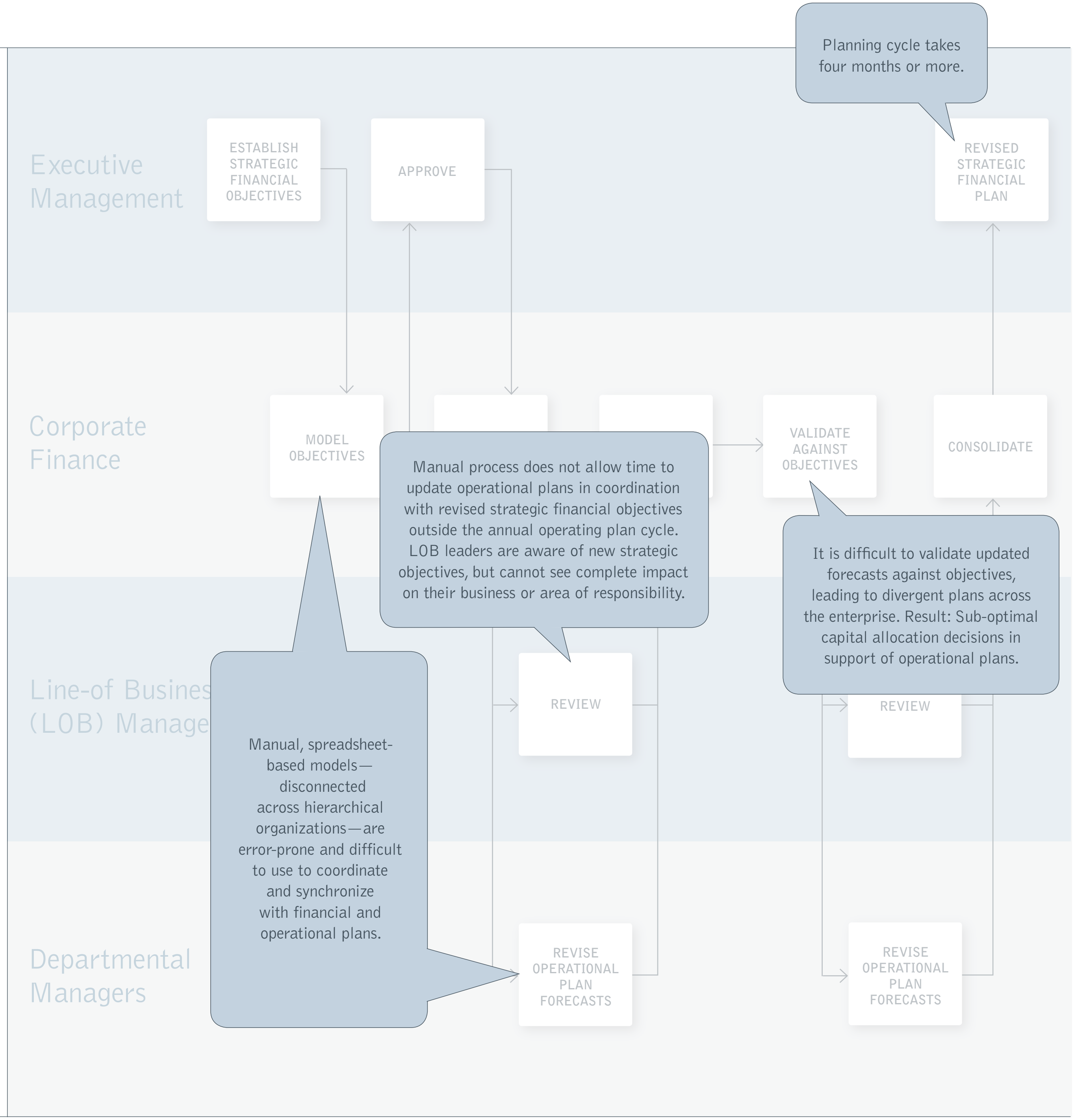
## Most companies use ERP systems and spreadsheets, leading to error and difficulty in arriving at consensus plans and budgets.

Financial ERP systems readily capture individual account transactions, while spreadsheets offer flexibility with great individual modeling capabilities. But neither is well-equipped to manage enterprise-wide integrated financial planning. ERP solutions cannot easily model the business beyond general ledger accounts. But operational plans are much more complex. Spreadsheets can handle modest complexity, but offer neither centralized management nor aggregation. The process is lengthy, the numbers are inaccurate, and a true integrated financial statement is nearly unattainable.

In fact, most companies forgo integrated financial statements and spend more time on income statements, with balance sheet and cash flow as near-afterthoughts.

Given the time and labor required to model strategic objectives, there is little opportunity for the rest of the organization to properly link operational plans with corporate objectives. Finance typically mandates objectives and barely considers operational plans. Opportunities are lost, serious resource issues go unnoted, and there is minimal accountability and commitment to corporate objectives.

The planning cycle is so time- and resource-intensive that plans for the upcoming year are already out of date when operational budgets are finalized and linked to strategic plans and objectives.

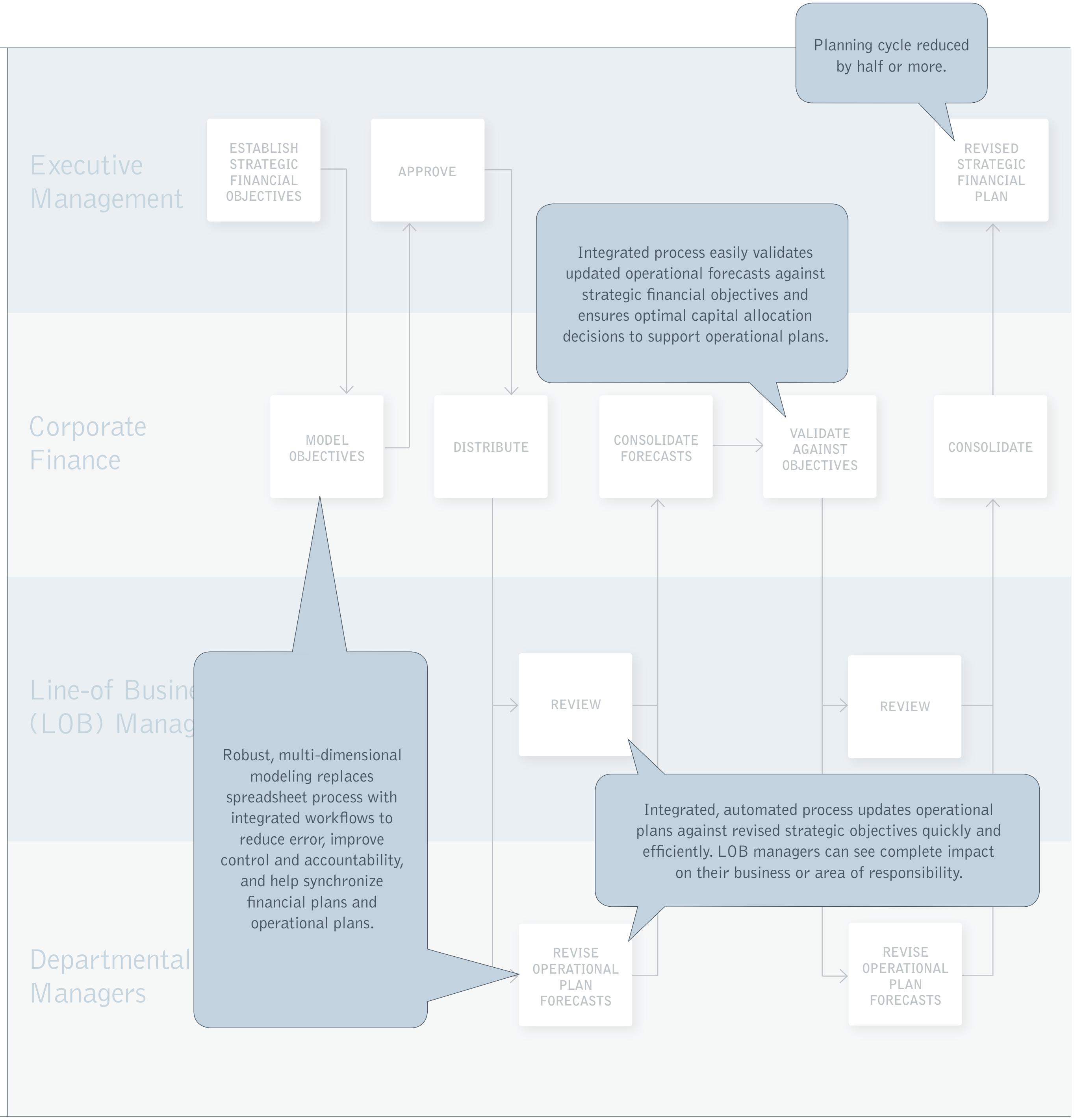


## High-performance companies replace the manual spreadsheet process with robust multi-dimensional modeling capabilities and integrated workflows to minimize error, maximize control, and boost accountability.

Using Cognos Planning, the process is integrated and accelerated, and enables more robust modeling to improve forecast reliability. Changing A/P and A/R turnover while decreasing revenue and expenditures ripples through integrated financial statements. Modeling "what-if" scenarios using "breakback"—Cognos' multi-dimensional reverse allocation function—to simulate business contingencies is quick and easy. Since strategic objectives are easily identified and modeled, financial targets are quickly passed to operations.

Operations has more time to create plans and tactics to hit corporate objectives. Since the planning solution offers complete workflow features, submitted and approved plans are automatically rolled up, saving time and effort. Corporate finance can determine if corporate objectives are in synch with operational plans.

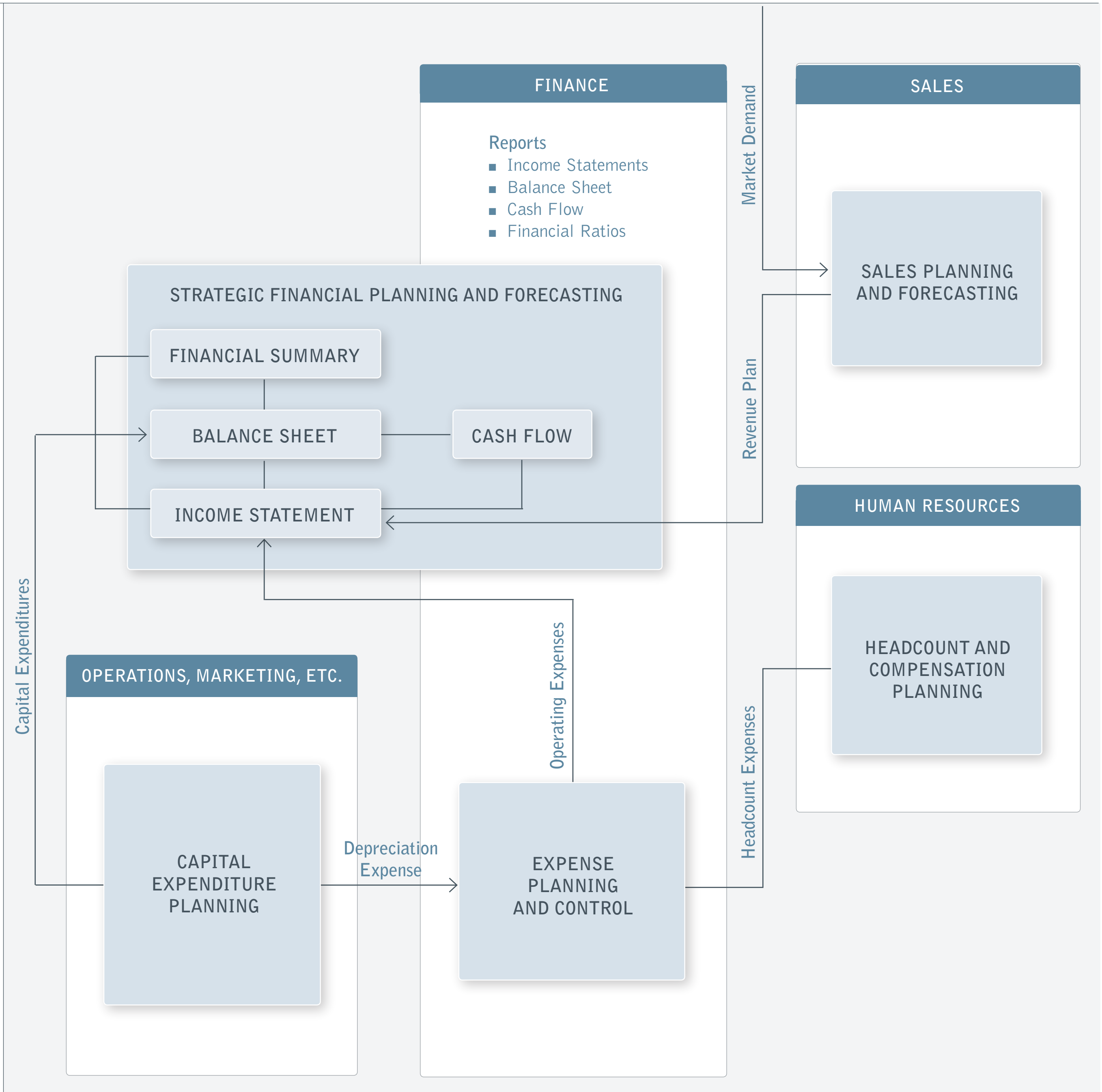
Since the planning cycle is greatly compressed, iterations and resource reallocation can be rapidly accomplished while the integrity of operational plans is uncompromised—leading to enhanced accountability throughout the organization.



## The Cognos Strategic Financial Planning and Forecasting Blueprint is the hub that aligns corporate targets with operational plans.

Cognos Plan-to-Perform Blueprints are pre-configured solution building blocks that allow companies to jump-start implementations. Cognos Blueprints are pre-defined data, process, and policy models that encapsulate collective best-practice knowledge from the Cognos Innovation Center for Performance Management and its leading customers for specific business process areas. In the hands of Cognos Implementation Services consultants, Cognos certified implementation partners, or experienced customers, Blueprints reduce project implementation schedules and improve project success rates.

The Strategic Forecasting and Planning Blueprint enables operations to focus on plans while affording finance and senior management the visibility to ensure that operational plans are in synch with corporate objectives. The Blueprint maximizes integration of financial statements, enhances data accuracy, facilitates business modeling, streamlines planning cycles, and strengthens links between strategic objectives and operational plans. It provides automation, scalability, and workflow to ensure that the entire organization can hit financial and operational targets.



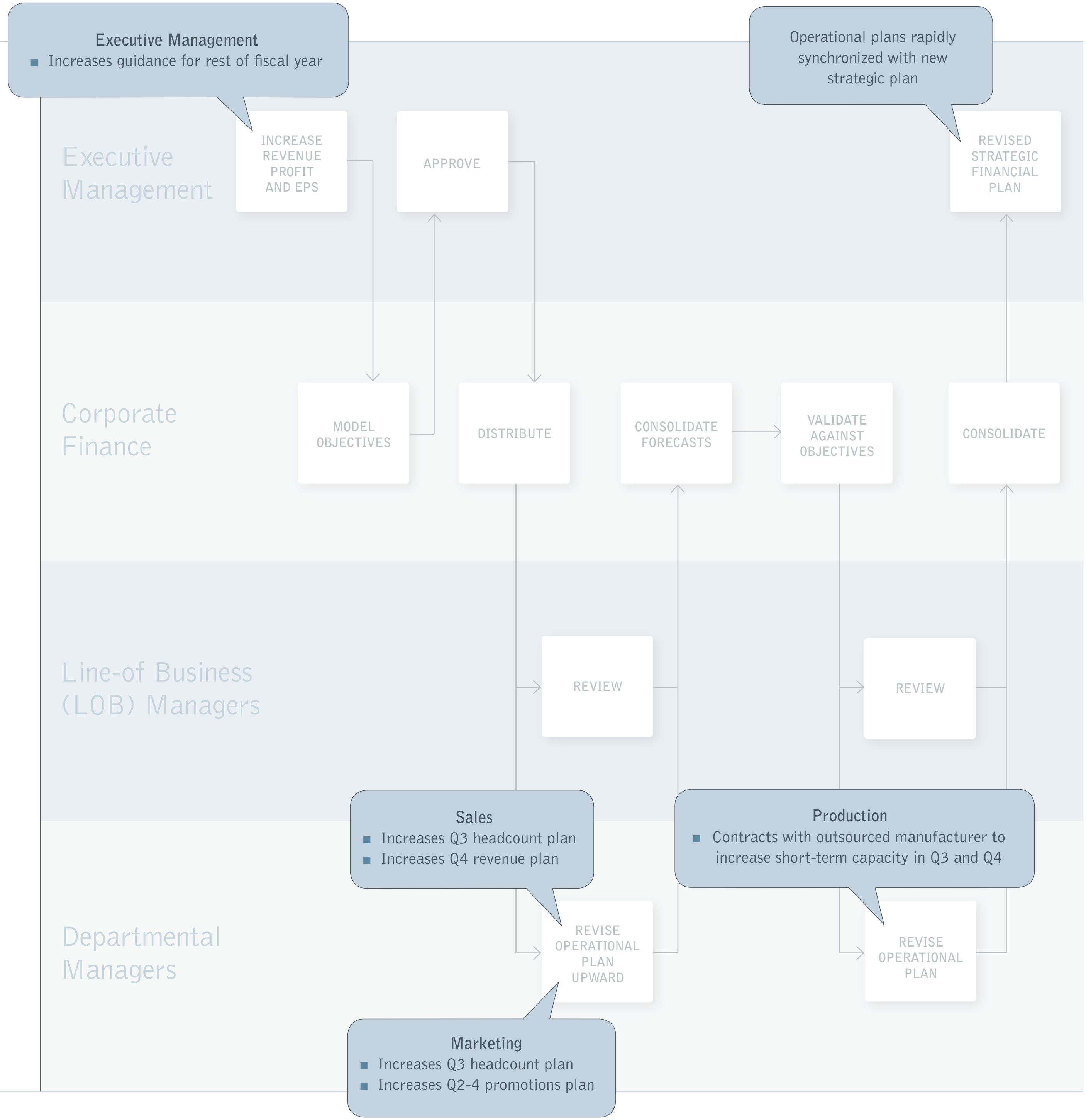
## A best-practice workflow quickly adjusts revenue and profit forecasts and immediately coordinates with operations to hit revised corporate targets.

Consider a company that revises its sales targets as well as its earnings-per-share guidance. As part of reforecasting, senior management and corporate finance model potential possible outcomes, then select the case which includes sales increases, as well as increases in marketing.

Automated workflow distributes new objectives and financial targets across the organization. Sales increases headcount to meet the new forecast, while marketing ramps up marketing campaigns to generate increased leads.

Sales forecasts are translated to update production plans. Production identifies an internal resource shortfall and outsources to a third party to fulfill short-term capacity need. HR is notified of the new headcount plans and begins to contract recruiters and ramp up hiring. New plans are consolidated with strategic forecasts and adjusted based on revised sales forecasts.

Within a few weeks, the entire organization is mobilized to meet its revised strategic objectives.



## The Strategic Planning and Forecasting Blueprint is based on proven best practices from companies like Qwest Communications which implemented Cognos Planning to improve business visibility and link financial and operational plans.

Qwest is a leading provider of voice, video, and data services in North America with approximately $13.8 billion in annual revenue. To improve the effectiveness of its planning, budgeting, and forecasting process, Qwest rolled out an integrated Cognos solution for enterprise planning, reporting, and analytics.

The implementation comprised three integrated models powering an 18-month rolling forecast with fully driver-based budgets for revenue, expense, and capital planning across more than 70 business units and all corporate expense centers.

The solution included a long-range planning model that is dynamically linked to all Qwest's cash flow planning and evaluation tools. Qwest built integrated financial statements for total company, divisions, and local-versus long-distance business. The model allows Qwest to analyze data and view profitability by product for divisions, geographies, and channels.

The result has been improved collaboration and accountability across the company.

Qwest
Spirit of Service

- Leading provider of voice, video, and data services
- More than 40,000 employees
- Revenues $13.8 billion

### BUSINESS CHALLENGES

- Poor visibility into performance
- Spreadsheet-based budgeting process frustrate effective planning
- Planning process required more than four months and consumed significant finance group resources
- Unable to model complex business structure which led to plans unendorsed by business units, product line management, or senior executives

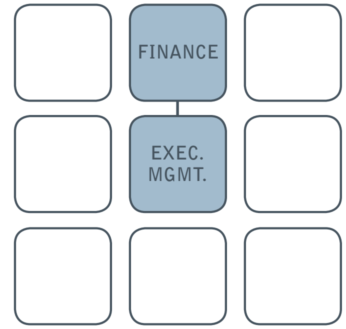
### SOLUTION APPROACH

- Cognos Planning to build and link driver-based revenue, expense, and capital plans across 70 business units and all corporate expense centers

### BUSINESS VALUE DERIVED

- Allowed Qwest to attain "one version of the truth" enterprise-wide
- Better visibility
- Improved operational efficiency
- Improved collaboration and accountability
- Finance is able to focus on value-added analysis

### COGNOS SOLUTION MAP




"We've been successful implementing Cognos and driving executive decision making because the tool speaks very simply and clearly to the metrics that our senior executive team is interested in: equity valuation and return on invested capital."

— **DIRECTOR**
Strategic Planning, Qwest

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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.