Innovation in Action Series
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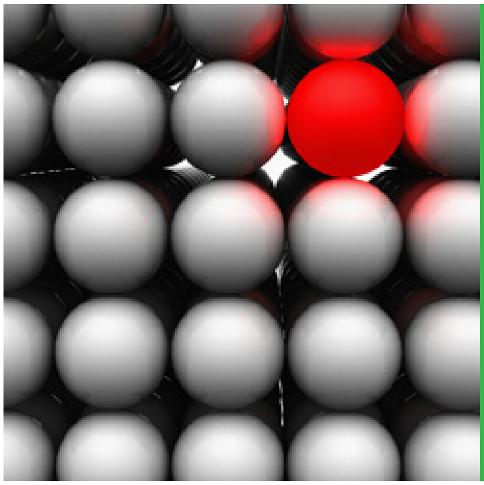

Innovation roundtable Minneapolis

Re-designing processes, re-designing decision-making

Information Management

Cognos software

Finding ways to make sense of the sheer volume of data available to Finance is not always easy. What are the right numbers to generate? Which ones will help make decisions? How do you move the focus from the past to the future? Speakers and participants at the April Innovation Roundtable discussed the whole information delivery and decision-making process, from analytics through reporting, metrics, and delivery.

Past Roundtables have focused on planning. In response to requests from participants, this event addressed the other side of the equation: information delivery, analytics, scorecarding, and reporting.

Executives from the retail, healthcare, food, and financial industries attended to hear new information about how to better use the information now available through advanced technology. More numbers don't necessarily mean more helpful information, as both of the key speakers could attest.

The Vice President of Application Development and Business Intelligence at a major trucking and transportation company presented the redesigned decision-making process that's revolutionizing the way his company plans and assesses performance.

David Axson, a thought-leader in the field of performance management, spoke on best practices in planning and reporting.

Both speakers acknowledge that Finance's responsibility is no longer just tracking numbers. It's connecting the operational cause with the financial effect across the organization and then delivering the critical information to end-users who need it.

Through this proceedings document, you too can benefit from the new ideas, approaches, and ways you can use to help your organization continue to innovate. You can find proceedings documents from other Innovation Roundtables, free of charge, at www.cognos.com/innovationcenter.

At the Minneapolis Innovation Roundtable, participants included executives from the following organizations:

- Alliant Energy
- Best Buy
- Ceridian
- Gander Mountain Company
- Gold'n Plump
- HealthPartners
- Hearth & Home
- Integris
- Nordstrom
- Smead Manufacturing
- Target
- Target Financial Services
- Tennant Company
- UnitedHealth Group
- Schwan's Home Service, Inc.

Driving change in the transportation business

Transportation is a highly competitive business with thousands of moving parts, every one of which must be tracked and monitored. One leading company is making strides toward greater efficiency and more effective decision-making through an innovative use of metrics in their planning process.

As Vice President of Application Development and Business Intelligence at a major trucking and transportation company, the speaker has had a unique opportunity to change his company's approach to planning. With a senior executive team that looks to the Office of the CIO to instigate new ways of working, he's led the charge in process redesign across the entire enterprise. In his talk, he described how the company now drives its management cycle by linking metrics with planning and analytics.

The process journey

After a period of substantial growth and diversification, the company recognized the need to look at its processes, and then redesign, improve, and support process changes with technology changes. Using a methodology based on Michael Hammer's ideas, they've developed a model to initiate process design efforts.

The model

The customer is the starting and ending point for every business process. The senior executive team "sets the course" for the process. At the core of the process are four customer-based processes—develop new products, acquire new business, acquire the order, and move freight safely. The ability to move freight is shown as a supporting process and includes considerations such as acquiring and retaining driver capacity, acquiring and retaining third-party capacity rails, third-party truck carriers, working with ship lines, working with airlines, and providing and maintaining equipment.

> *"The thing about change is – it's easy until you have to do it."*

The supporting processes are: establish metrics and monitor performance, provide a skilled, energized workforce, and provide technology solutions.

Each of the processes has a single owner. Owners meet regularly in a group called the process leadership council, a high-level governing body that ensures process redesign work is moving forward in a synchronized way.

Across the process, there are enterprise-wide, key collaboration zones including customer and order. "We're really looking at doing two things – optimizing the cost for the customer and obviously optimizing our revenue as it relates to moving the wheels. So it's very important for multiple reasons that we have an enterprise view of the order," said the speaker.

The diagnosis phase

At the start of the process, a team is created to diagnose what's wrong. They ask, "What does the current state look like? What's working well? What isn't working well?"

The redesign and transition phase

The team then asks, "What do we want the future state to look like? What does transition look like?" Then a supporting incremental plan is built. In the redesign and transition phase, the design teams use labs to run conferencing pilots. Then the pilots are tested on the customer service floor. Finally, they are rolled out to the whole organization.

The adaptation phase

The company uses a process different than the standard when developing and implementing software. Instead of locking down every requirement early in development, they've added a new phase that allows business users to start using new applications, find out what information is available, and give feedback on the type of analytics they need. Then the software developers put together analytics after the application is in the field.

Managing change

The company has successfully developed a high-quality process design. "But the other challenge is getting people to accept the change," the speaker said. "The thing about change is that it's easy until you have to do it." After trying both incremental and "cutting the cord" approaches to change, the Vice President has found that the most important variable in acceptance of change is the success of past change. In other words, the quality of the design is essential in getting change accepted; no amount of change management will overcome a bad design.

Working top-down

The company develops, designs, and implements change from a "top-down" perspective. "The reason we thought about it top-down is that it's very important that whatever model you choose is accepted by the senior executive team because ultimately, they are some of the users," the said the speaker.

Financial versus operational metrics

"Financial metrics tends to be outcome-based. It's looking in the rearview mirror. Operational metrics tend to be drivers, in terms of what indicators will predict what's going to happen in the next 30, 60, 90 days, whether it's the market or driver capacity or another key indicator," the Vice President said.

The company's process design teams are focused on operational metrics. Scorecard workshops, starting at the top of these business units, have defined the strategy management. Now, top management can associate strategic objectives with indicators from across the organization. "The thing that the business leaders like about this approach is that it renders in one page the strategy for the business unit across four different perspectives," said the Vice President.

Workshopping the solution

The final step in implementing change is implementing a way to display, manage, and communicate information. The Vice President has found that, though the high-level indicators on a strategy map are very important, they are only a starting point. The company still must be able to drive into the detail so that people that can do something about what's going on.

The executive team and the metrics team meet weekly to analyze and improve the solution. While they can't absolutely determine whether the metrics are the right ones, they will rethink the set and decide whether critical metrics will be covered by the set in place, knowing that it will change. "We're going to take our best shot at the three indicators we believe are the right leading indicators to understand what our revenue impact is going to be. If they need to change, they'll change them." He continued, "Our philosophy is, don't spend eight months trying to get this right. In 40 hours, you're going to be 70 or 80 percent there. You're going to be close enough because you know your business. Get the thing running. The power of that is, when you start deploying it to the field and more people and more sets of eyes look at it, better ideas come out as to a better indicator."

For instance, one general manager reported that 40 percent of the indicators that they had chosen had changed within five months because better information came out of using the original metrics.

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Strategic value versus cost

The company uses a model for determining which projects should be implemented, whether they are IT-based or a business initiative. They balance potential benefit of a proposed project with the cost to implement it. Something that's high cost and low value falls into one category; low-cost, but high value goes into another. The metrics team creates a chart that makes it easy to see at a glance what the right actions are.

Adjustments in the field

One of the tasks of the workshops is modeling the ways business unit leaders will operate with this information. In the units currently operating within the model, the senior executive team meets regularly to look at the strategy map and drill into specifics.

On a monthly basis, they look at summary scorecard data and any analysis commentaries of what's happened over the past month. On a weekly basis, they look at operational data and try to tie things together by asking, "What's happening on the scorecard and what's needed in the process to go after that strategy?"

On a quarterly basis, they review the strategy method itself. Is the strategy still correct? Instead of annually, semi-annually, or every two years, they review the strategy and make adjustments to keep it useful. "You're able to sit down quarterly and really understand whether the objectives you have in your strategy are correct, " said the Vice President.

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>
> *David Axson*

Leadership, a framework, and buy-in

The company had business-unit leaders who were progressive thinkers, were willing to experiment, and willing to spend 40 hours in a workshop. "I've been talking about a tool and that's probably 10 to 20 percent of this whole effort. It's all about process people, changes, leadership and how to make this work in the company," said the Vice President.

To make a change, a framework is needed. Microsoft® Excel® spreadsheets, which the company had used for ten years, are not well-controlled or governed, and don't have good definitions of calculations. IBM Cognos® Metrics Manager gave them a framework for building discipline and governance into their whole metrics process. "Our vision is that senior leaders can sit down at their desktop and quickly drill into some red indicator that's important to them, without making phone calls and creating big swirls within the organization," said the Vice President.

When asked about the willingness of participants to reveal information to Finance, the speaker said that the attitude has to be one of pragmatism. The message he makes clear as the new process is rolled out is: "If we're honest with the data, we're going to address real issues and be better as an organization." Ultimately his goals are speed in decision-making, less non-value discussion about data significance, deriving a set of indicators that represent what's really important, and finally, speed of execution.

In addition to showcasing successful customer deployments, the IBM Cognos Innovation Center spreads the word of leading thinkers in performance management. At the Minneapolis Roundtable, the second guest speaker was David Axson, co-founder of the Hackett Group, author of several books, and longtime leader in designing financial benchmarks and best practices.

Twenty years as a consultant, writing a book, and a year as head of corporate planning at Bank of America were pivotal, influential experiences for Axson, informing his way of working and thinking about performance management.

Along with a 12-month contract at Bank of America, he was given the role of change agent. Early in his tenure, the bank appeared in the Wall Street Journal five days in a row, for all the wrong reason. Troubles in the mutual-fund industry led to an indictment against Bank of America. Four months later, the Parmalat scandal in Europe broke. Then, four days after the business plan was completed, a $46 billion acquisition was on the table. Each time, corporate response was instantaneous and the business plan was updated quickly.

To place the progress Axson made in perspective, before he arrived, it took Bank of America 26 weeks to develop a business plan. While Axson was there, it took eight weeks. The following year, it took only six weeks.

Finance is changing

Finance professionals have gone from venture capitalists focused on creating shareholder value to managing in a highly regulated environment where compliance is critical. "It's a very, very different mindset that has radically changed the way we as finance professionals think of precision, accuracy, and integrity in our business," said Axson.

Key questions every finance organization should ask

Are we focused on the right things? Axson has found that the amount of time spent on data collection versus actual analysis and decision support is out of proportion to the importance of the tasks. "It's frequently an 80/20 rule with the 80 being on the wrong side of the equation," he said. Excel spreadsheets were a huge development, but also a double-edged sword. "It's probably the most liberating thing that probably ever happened for financial professional. And it's probably the most damaging thing that ever happened, because it destroyed dialogue and debate and discovery," said Axson.

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>
> *David Axson*

Are we fast enough? "Do you have the luxury of more time to make a decision and more time to do analysis?" Axson asked. "Probably not. I have to guess your business is more complex, more volatile, and faster moving than it ever has been – and the pace is not slowing down. And yet, in many situations, we've now gotten more and more sets of data that we can potentially analyze to contribute to a decision. That's one of the real challenges."

Are we cost effective? In 1991, some 50 percent of the people in finance were clerical. Less than 20 percent are now. That means 80 percent are managers and professionals and two-thirds of their time is still spent managing transactions or closing the books. "We've got a lot of expensive, highly qualified people doing particularly crappy work," said Axson.

There are new forces at work in the market

Manufacturing is no longer the center of the economy. Service is. Where demand once exceeded supply, now supply often exceeds demand. It's a global, not national or local marketplace. Competitors are everywhere, putting forth alternative solutions. Everyone has access to cheap capital, and organized special interests make an impact in almost every industry. The result is a more complex, volatile, and uncertain world that demands new ways of managing.

Ignoring change is deadly

Companies working with old models miss the danger signs. Consumed with day-to-day operations management, companies don't see changes occurring in the business environment. Successful companies are especially risk-averse and want to protect the status quo. Everyone plans to succeed (or continue to succeed) and fails to plan for failure. No early-warning system exists to alert decision-makers about potential market-changing events or trends. Companies tend to look back, not forward, for guidance.

For instance, Wal-Mart's biggest challenge is not K-Mart, but special interests. The three biggest issues Wal-mart's dealing with are immigrant labor, class-action suits by female workers, and local communities seeking to re-zone land to prevent Wal-Mart buying it. They can pay the fines, hire the lawyers, and deal with the issues, but the structural issues are not being addressed until it's perhaps too late. "They can tell you how many tubes of Crest toothpaste they sold in Boise between 9:05 and 9:07 this morning," Axson said. "But they don't have the information they need to see and react to big, market-changing trends as they occur."

What's the lesson? "Understand the things that are going to determine your success and failure in the future. Then think about to what extent those are included in your planning and forecasting reporting mechanisms."

Questions to ask about every plan

- What if you're wrong?
- What if the assumptions in your plan or business case are flawed?
- How will you know it?
- What are the leading indicators of failure?
- And what would you do differently? What's your contingency plan?

Current trends that create new challenges

More detail, less insight. "Very detailed, multi-year plans which tend to end up looking more like financial budgets are an exercise in futility for most companies," said Axson. "If you're basing your business on static monthly reporting and it takes you five to ten days to deliver those reports, your information is already stale by anywhere from two to six weeks."

Metric overload. When Axson arrived at Bank of America, there were close to 10,000 scorecards. "You can prove anything," he said, "with enough numbers."

Urgent always trumps important. Part of the new job of Finance is to provide balance between importance and urgency for the organization. "In many ways, Finance is the conscience of the organization, getting people to ask themselves the hard questions," Axson said.

Less dialogue, more analysis, and more intuition. At Bank of America, Axson formally instituted a process to bring more intuition to the process. "Three times a week, we would set aside an hour when we'd ask ourselves the questions, 'Is this right? What commentary should we be providing around it? What response do we expect from the recipient when we received it?'"

Over-reliance on technology. "It's easy to build an inefficient process and just get bad data faster," Axson said.

A new focus is required

Focus on:

- Revenue, not costs
- Risk, not certainty
- Accuracy, not precision
- Forecasting, not budgeting
- External threats, not operational execution
- Criteria for abandonment, not criteria for success
- Event triggers, not deadlines
- Portfolio of skills and tools, not silver bullets

Where to go from here?

Finance needs to help people think about how to use new processes to achieve their goals. "The biggest problem I see with a lot of the process redesign projects that go on is that we do a lot of great work and then totally miss the real point, which is educating people how to use the process," he said. "It's important to teach people how to use a balanced scorecard, how to use a rolling forecast, and how it changes the way decisions are made."

Quick fixes to consider.

- If forecasts are wildly inaccurate or sandbagged, publish a forecast accuracy league table.
- If annual planning takes too long, start later to force focused planning.
- If bottom-up budgets fail to meet required targets, stop doing them. Instead, automatically generate baseline budgets.
- If plans fail to adequately address risk, get the CEO to consider three questions: What if you're wrong? How will you know? What will do you about it?
- If your analysts spend all their time digging for data, set aside an hour a day for a group of analysts to debate a key trend or ratio in the business, and ensure that no more than 50 percent of analyst time is scheduled.
- If external information is scarce, siloed, and poorly integrated into the plan process, inventory all external data sources across the company and add an external environmental assessment to every business, marker, and product line review.
- If project proposals are unrealistically optimistic, mandate that all proposals include a list of potential causes of failure, as well as the criteria under which the investment should be abandoned.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

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