



# FINANCE FORUM

2009

## *Developing A Dynamic, Risk Based Performance Management Process*

David Axson



# *Volatility and Uncertainty are Now “Business as Usual”*

## *Oil Prices: Last 2 Years (Brent Crude)*



- Commodity prices
- Real estate
- Consumer spending
- Exchange rates
- Share prices
- Employment

## *Even the Best are Struggling*

***“Visibility is low and forecasting is challenging”***

***Peter Oppenheimer, CFO, Apple,  
22<sup>nd</sup> October 2008***



*It is Different This Time...*

***“The world is now facing the first truly global economic crisis, which is continuing to develop at an unprecedented pace.”***

*Vladimir Putin, World Economic Forum,  
Davos, 28 Jan 2009*

## ***But Many of our Management Practices have not Kept Pace***

### **The World Today**

- Increased volatility
- Global interdependence
- Customer led
- Intense competition
- Integrated supply chains
- Instantaneous communication
- Technology dependant

### **Typical Practices**

- Five year strategies
- Detailed annual budgets
- Quarterly forecasts
- Monthly reports
- Actual vs. budget
- Single point estimates
- Time consuming
- Spreadsheet driven

*How are the best coping?*



## *They Share Many Characteristics*

- Do the “basics” very, very well
- Explicitly address risk
- Maintain focus and discipline
- Use their talent to the full
- Encourage and sustain collaboration
- Moved beyond the spreadsheet




# How do they do it?





## Visibility from Strategy to Financial Results

- *Achieve the dominant market position*
- *Deliver market leading shareholder returns*



|                     | <u>Co.</u> | <u>Market</u> |
|---------------------|------------|---------------|
| <b>Sales growth</b> | 9%         | 3%            |
| <b>TSR</b>          | 17%        | 7%            |

# *Expect the Unexpected; the Extraordinary is Now Ordinary*

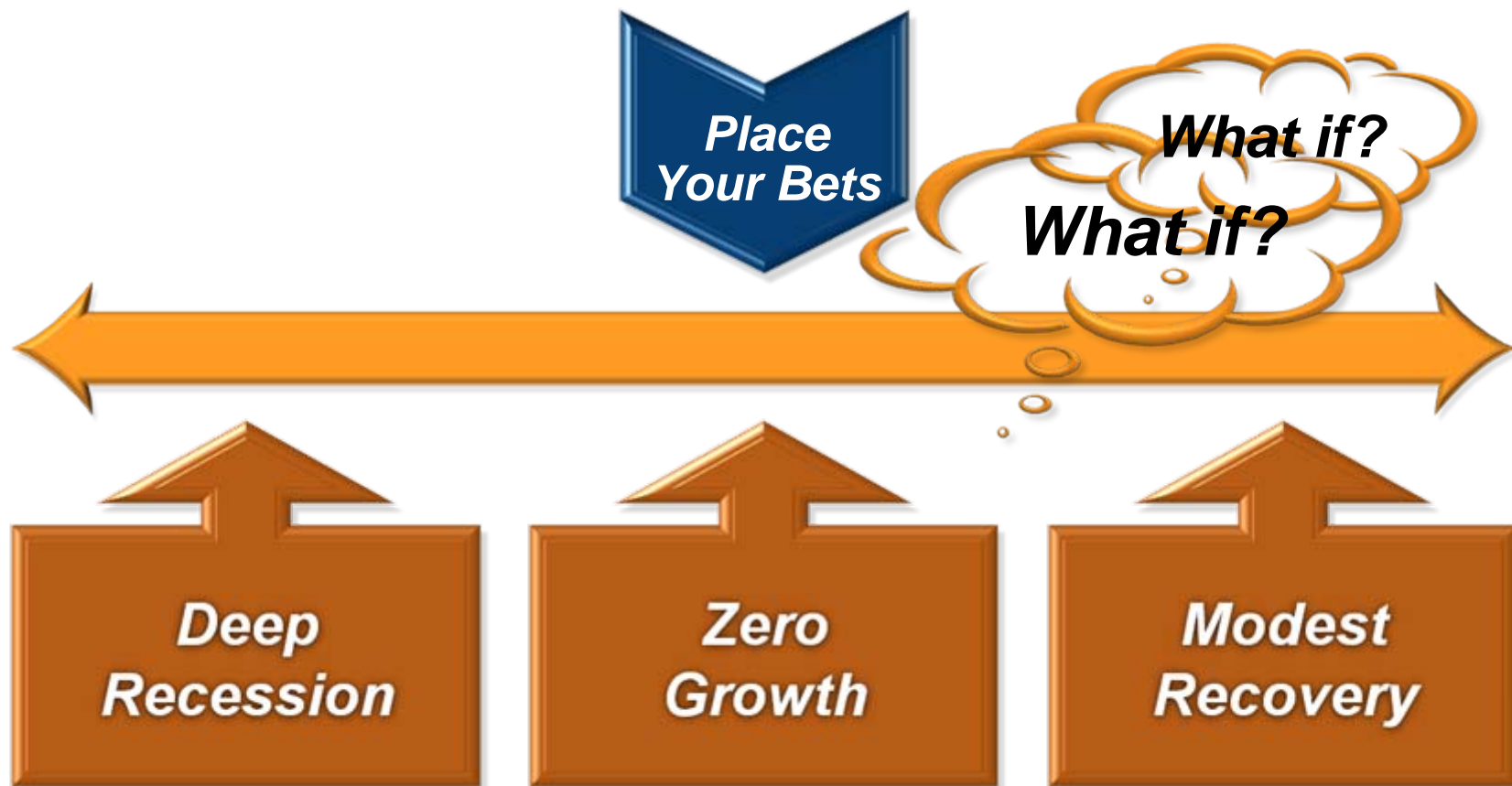
## Trends

- Major economic upheaval in one or more countries/regions (Latin America, Russia, Mexico, Japan, America, etc.)
- Rapid rise of new economic powers (Korea, China, Russia, India, Brazil)
- Commodity boom (bust?)
- Oil dependence
- Population growth/demographic change
- Environmental stewardship
- Global interdependence

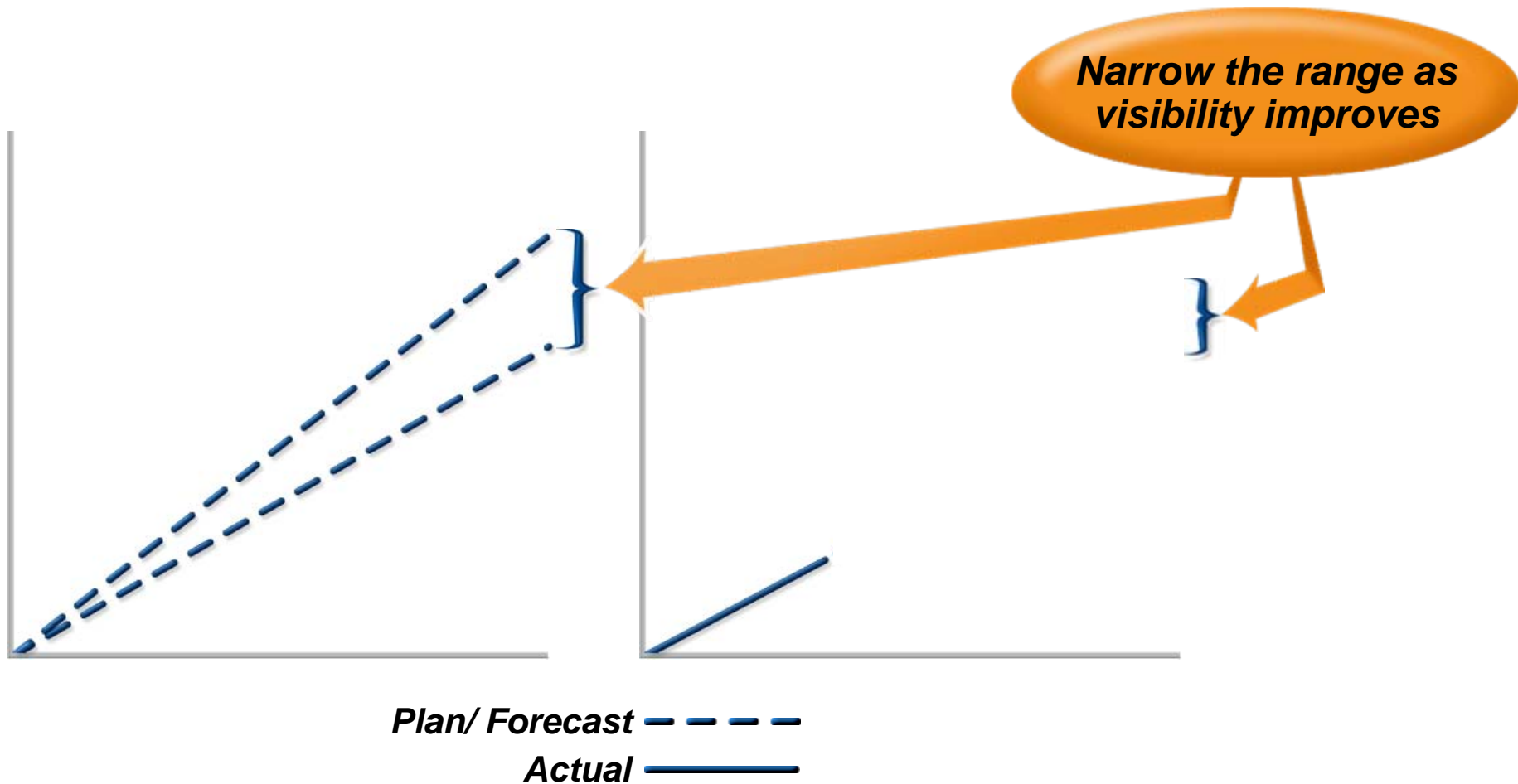
## Events

- Dot.com bubble bursts
- 9/11
- Sarbanes-Oxley
- SARS
- Asian Tsunami
- Hurricanes Katrina and Rita
- Large scale corporate failures
- Global credit crisis
- High jacking of cargo ships

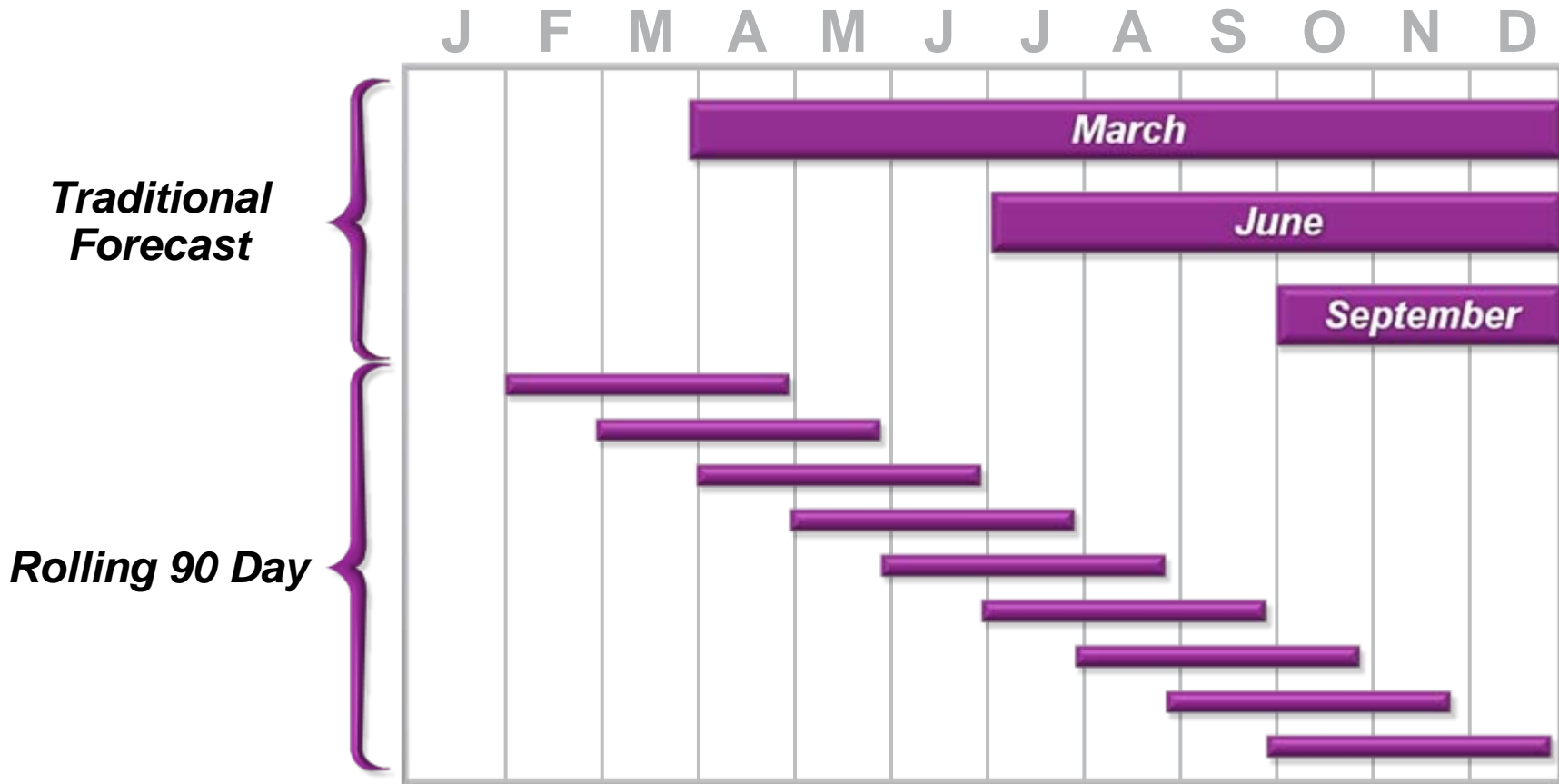
# *Plan for Multiple Scenarios*



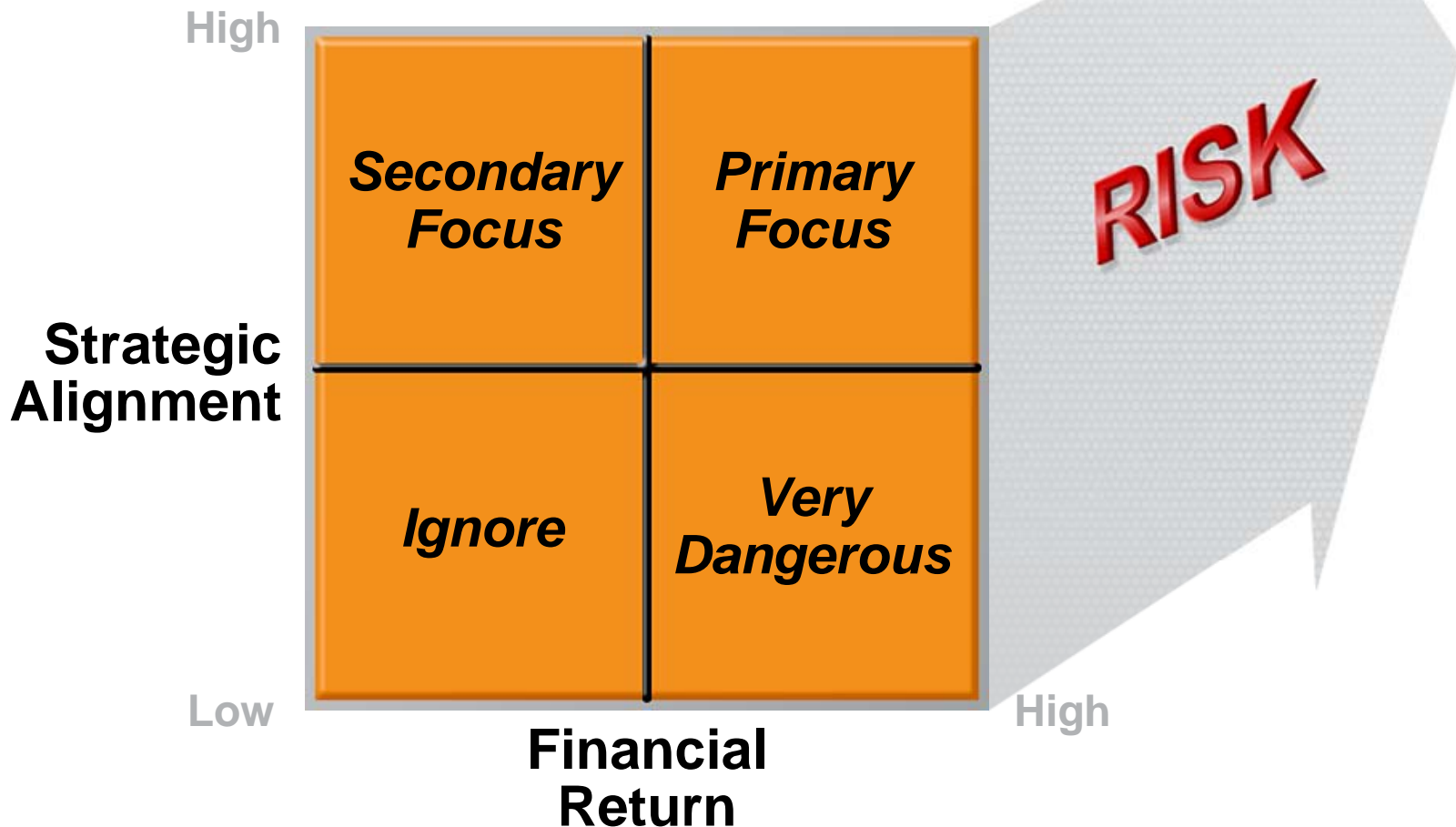
# Use Ranges to Acknowledge Uncertainty



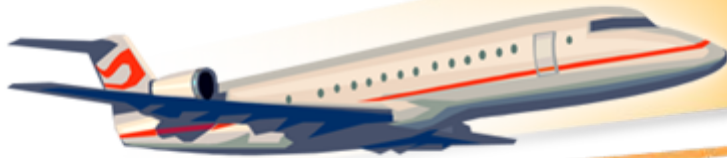
# Forecast More Frequently But With a Shorter Time Horizon



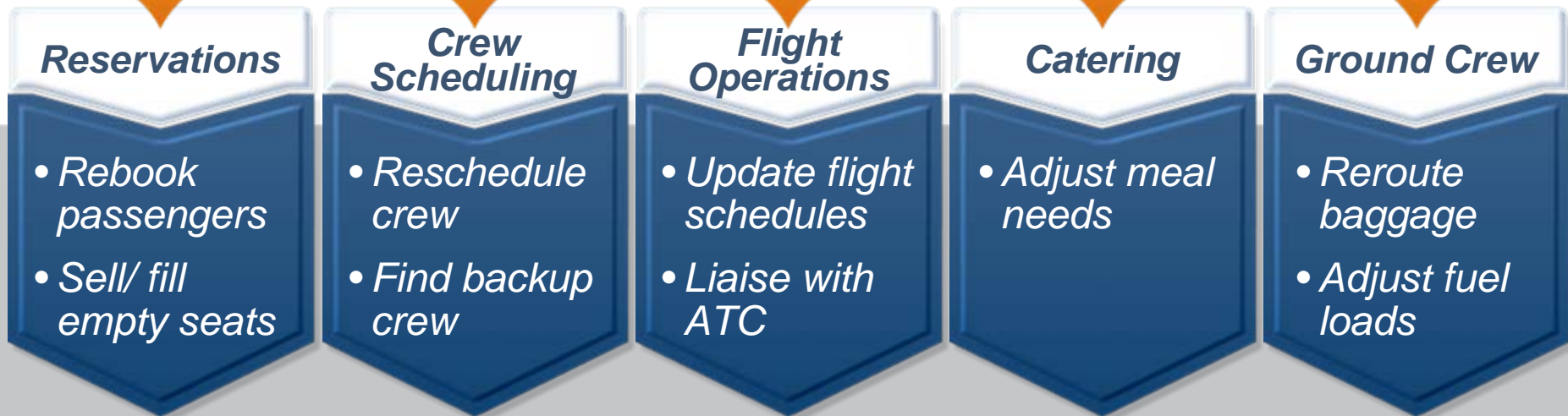
# Retain Focus



# Dynamic & Real Time Performance Management in Action



**23 passengers will miss their connections**



## SCORECARD

Update key metrics e.g. On-time, flight P&L's, service quality costs

# Make Reporting Relevant to Decision Making

Department: Northwest Sales  
 Period: Second Quarter



## Travel Spending



|                       | Actual        | Budget        | Variance       |
|-----------------------|---------------|---------------|----------------|
| Airfare               | 12,725        | 9,225         | (3,500)        |
| Hotel                 | 4,000         | 3,250         | (750)          |
| Ground Transportation | 1,500         | 1,250         | (250)          |
| Lodging               | 2,150         | 2,000         | (150)          |
| Meals                 | 600           | 700           | 100            |
| Other                 | 275           | 275           | 0              |
| <b>Total Travel</b>   | <b>21,250</b> | <b>16,700</b> | <b>(4,550)</b> |







# Drive Understanding and Action

Department: Northwest Sales  
 Period: Second Quarter



| Travel Spending   | Actual Q2     | Q1            | Q4            | Q3            |
|---|---------------|---------------|---------------|---------------|
|  Selling new business | 5,700         | 6,000         | 8,000         | 8,500         |
| Selling to current customers  | 4,500         | 5,000         | 7,000         | 7,000         |
| Education & training  | 500           | 600           | 600           | 1,000         |
| <b>Total "Good" Travel</b>  | <b>10,700</b> | <b>11,600</b> | <b>15,600</b> | <b>16,500</b> |
| Mitigating service issues   | 9,000         | 7,500         | 4,500         | 3,500         |
| Administrative  | 1,550         | 900           | 300           | 400           |
| <b>Total "Bad" Travel</b>   | <b>8,800</b>  | <b>8,400</b>  | <b>4,800</b>  | <b>3,900</b>  |
| <b>TOTAL TRAVEL</b>   | <b>21,250</b> | <b>20,000</b> | <b>20,400</b> | <b>20,400</b> |
|  New Orders         | 195,000       | 240,000       | 235,000       | 228,000       |
| Good Travel to Orders   | 5.5%          | 4.8%          | 6.6%          | 7.2%          |
| "Good" to "Bad" Travel  | 50%           | 58%           | 76%           | 81%           |



# *Many Organisations are wasting valuable talent*

MONDAY

*Collecting  
Data*

TUESDAY

*Collecting  
Data*

WEDNESDAY

*Maintaining  
Spreadsheets*

THURSDAY

*Developing  
Reports*

*Maintaining  
Spreadsheets*

FRIDAY

*Other  
Activities*

*Performing  
Analysis*

*Developing  
Reports*



# *The Best Drive Analytics & Insight*

MONDAY

*Collecting  
Data*

*Performing  
Analysis*

TUESDAY

*Performing  
Analysis*

WEDNESDAY

*Interacting  
With  
Decision  
Makers*

THURSDAY

*Interacting  
With  
Decision  
Makers*

FRIDAY

*Other  
Activities*

*Strategic  
Initiatives*

*Personal  
Development*



# And Focus on Cross-Functional Collaboration

Competitors can't match our product but they are pricing 5% below us



**Marketing**

**CEO**



Looks like we can be aggressive. Let's go after share with targeted promotions

| Trend    | Trend (Last 90 Days) | Status                                |
|----------|----------------------|---------------------------------------|
| Sales    | 0%                   | <span style="color: orange;">●</span> |
| Pipeline | + 14%                | <span style="color: green;">●</span>  |
| Margins  | +3%                  | <span style="color: green;">●</span>  |
| Cash     | +7                   | <span style="color: green;">●</span>  |



**Finance**

We have excellent cash reserves and low receivables

Our pipeline has increased by \$2m; but close cycles are extending



**Sales**



**Operations**

Operating expenses are down; 3% driven by improved productivity

*It's Simple!*

**Talent**

**Technology**

**Timing**



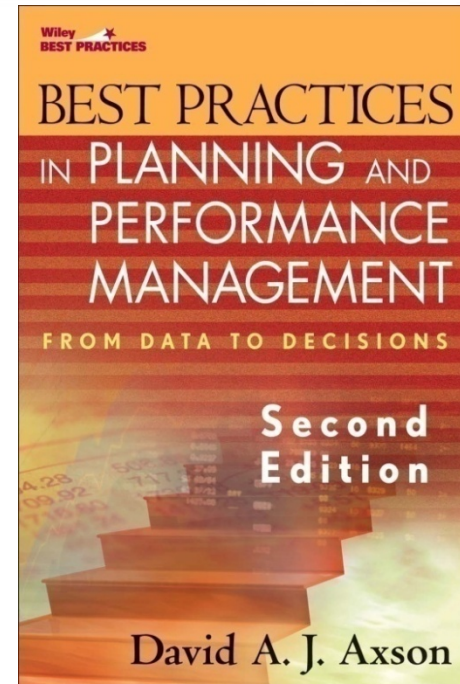
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