

# ENTERPRISE PERFORMANCE MANAGEMENT, ECONOMY AND YOU

COULD THE TIMING FOR LEVERAGING ENTERPRISE MANAGEMENT (EPM) SYSTEMS BE MORE APPROPRIATE? WITH THE SLOW-DOWN IN ECONOMY, WE ARE ALL FACING PRESSURES ON SALES, MARGINS, CUSTOMER RETENTION AND MORE. IN ADDITION, NEW LAWS ON COMPLIANCE, REPORTING AND SECURITY ARE BEING ENFORCED ACROSS INDUSTRIES FROM FINANCIAL SERVICES TO BANKING TO HEALTH CARE. SO THE TOP LINE IS HURTING WHILE NEW LINE-ITEMS ARE GETTING ADDED TO EXPENSE SIDE.

The need of the hour is to bring efficiency in manufacturing, supply chain and financial operations. Couple this with effectiveness of your actions by focusing on what is core to you and take corrective action where needed and you will be a winner. In these times, we need ability to adapt and adopt to changing economic and competitive conditions and to communicate the strategy and the required actions down to front-line shop floor, sales and service organization.

The question is how do we accomplish this and given the slow down, is this a good time to make any investment in this area?

## The business of business is growth

Whether the economy slows down or competitive pressures increase, the best strategy for succeeding in business is to be on offense. Tony Dungy, Bill Belichick and Mike Shanahan sure do believe in the offense strategy, and their Super Bowl win records support that. As an organization, the offense strategy has to be applied, both to internal as well as external factors (think Porter model).

In fact, every company is on offense with competition. You strive to offer better products and services, enhance value in customer's minds, and evolve tactics that steal market share at the grass root level. But how offensive are you with your poor performing products and your poor performing sales people? Actually, do you even know how to measure profitability accurately by business line, by product category, by geography – and on a monthly basis? Similarly, are you on offense with costs within your organization, not just direct travel costs or salaries, but resource drains such as in-efficient close process, manual budgeting and planning process that take valuable analysis time away?

Successful organizations are on offense irrespective of economic environment. Apple undertook development of iPod and iTunes right through the last recession and benefited when consumers started spending. Oracle Corporation made strategic investments even when stock market was high, and has, in turn made itself somewhat recession proof. Another trait of successful companies is continued investment in technology and strategic assets. ABB and Doux Group are two companies that invested in EPM tools right in the middle of

one of the worst crisis these companies saw. ABB<sup>1</sup> when it lost its investment grade rating and was in the middle of a major liquidity crisis and Doux Group<sup>2</sup> when their profits tumbled in the wake of bird-flu. These are Type A companies, they plan on succeeding and work and invest towards achieving success.

Following is the story of EdenOne, another Type A company that made strategic technology investments at a sustained pace. Planning at strategic level, making investments, demonstrating measurable results and gaining internal support is now in their DNA. This investment has helped them inculcate a cultural of efficiency, effectiveness, speed, visibility and accountability. Let us journey with the executives at EdenOne Corporation.

## THE GOOD TIMES

### STAGE I: FOUNDATION SYSTEMS

EdenOne was like any other traditional company that enjoyed the bounty of 1990s and focused on sales and top-line growth. Customers wanted more and more of EdenOne's products and paid premium prices. The CEO and CFO were involved in customer acquisition, new markets and finding low cost suppliers. The analyst meetings were always a pleasure, but the only stigma EdenOne had, was that it was an 'old-economy' company. EdenOne had invested in an ERP system and was proud to have a new CRM system in place. The new CIO joined EdenOne in early 1999 and got fat budgets for his e-Commerce initiatives. And shortly after that, the economy slowed down, dot-com bust happened and 9/11 took the remaining breath away from the markets.

## THE BAD TIMES

### STAGE II: FOCUS AND IMPROVE

It was in these tough times that Cindy took over as the CFO of EdenOne. She was brought in to bring fiscal discipline and tighten the projects that were committed to in the hay-days. Neither the CEO nor Cindy subscribed to the concept of cost cutting. Instead they wanted to ensure that EdenOne invested in areas that helped improve the operational efficiency and organizational effectiveness. They wanted to increase investments in innovation and technology that related to customers, products and process improvement.

First and foremost, the thing she needed was visibility into company's data. Having been a business analyst, she knew the value of having right data at the right time. She hated to wait for days for IT to build a report and then having to wait for 20 minutes for report to run from the ERP system. Cindy was quite technology savvy she knew there is a better way with analytical reporting. She had a conversation with Ivan the CIO about her reporting challenges and they decided to work together on doing a package selection exercise and implementing the project in next quarter.

Cindy had correctly anticipated that the new system would help her get information on her business quickly and accurately.

So one quarter, when the reports showed a spike in Gross Margin to 34.52 percent instead of about 32 percent, Cindy wanted to get insight into the reasons. With the on-line analytic capabilities of the Business Intelligence (BI) Application, Cindy took about five clicks to drill down from P&L to Sales to Customer level data by Geography and learned that the margin went up because the company completed a large shipment to a profitable customer in Ohio. On digging deeper, in two clicks she saw that order pipeline and shipments will be down to normal levels in the next three months!

Delighted with the speed of information availability, she spent 30 seconds reminiscing her early career years, when it would have taken her hours and days to explain the spike! She made quick mental calculation of time saved by the six business analyst in Finance department and multiplied that by three times for time saved by Sales, Supply Chain, HR and Production Planning analysts. Cindy was proud of her decision to invest in the BI project that had increased the velocity and quality of insight from “What” to “Why”.

### From analyzing the past to predicting future

Over the years, while everyone got used to and settled down with the BI solutions, Cindy was itching for more. She pondered if she should actually be able to predict the margins? She and the CEO knew that the street was getting more demanding with accuracy of forward-looking results and she needed more insight into her business, in a proactive and actionable manner. She started running these thoughts again with Ivan, the CIO of the company. In their conversations, Ivan mentioned about a demo he had seen on Siebel Analytics (now OBIEE) in a conference on pre-built analytics. He told Cindy that those pre-built analytics could help her predict results rather accurately. Cindy was excited about the prospect of being prepared to explain the variances in advance! She could see her and the CEO's confidence going through the roof before every analyst call. Ivan and Cindy undertook the project to implement Predictive Analytics in sales organization and later that year extended that tool to Supply Chain organization.

Sam, the VP of Supply Chain was very excited about his ability to do Spend Analysis and Supplier Performance. He was never before able to prioritize his suppliers or reward or punish his suppliers based on their performance! He started predicting the Procurement Cycle Times for each supplier based on their geography and scalability and negotiated \$0.5 million in savings in 2004 alone.

## THE CIRCLE OF ECONOMY: GOOD TIMES ARE BACK AGAIN

### PHASE III: SUPPORT THE GROWTH

#### Needed: Culture of Planning

As Cindy got accustomed to deeper insight into her business and was able to predict sales, costs and quarterly financials, she had started to long for more. She realized that what she was getting from her BI Application was still reactive, it was not

planned. Though she was getting field information, but was she *managing to plans*? EdenOne just did not have the culture of Planning and there was a reason for that. Nobody liked to undertake the long and cumbersome, un-secure and non-collaborative planning exercise using Excel spreadsheets. While the business complexity grew, the need of a strong budgeting and planning system became more pronounced. Consequently, the relevance of Excel-based Planning and Budgeting system only went down!

Cindy remembered what her mentor CFO used to tell her, “Its all about Planning. Plan the Plan and monitor the Plan and revise the Plan – and do it often.” Cindy knew that the current process could probably help them survive, but definitely not help them grow and compete! As she pondered more, she realized what she really wanted was a system that was driver based, fully integrated from Revenue to Expense to Salary Planning and inculcated a *culture of planning*. She also wanted the system to be fully compliant and secure.

In her weekly breakfast meeting with Ervin, the CEO, she talked about how Sam was predicting savings of \$0.8M in 2006 and exalted the benefits of technology. She also talked about how broken the Planning Process was and how she wanted to inculcate a culture of planning in the company. Ervin supported her idea and encouraged her to look for ways to increase accountability and visibility into both, people and processes. He reminded her of the Noah Principle, “There are no rewards for predicting rain. You only get rewarded for building the ark.” The first action that Cindy took after the meeting was to fix a lunch appointment with Ivan, Sam, Heather the VP of Human Resources and Frank, the Financial Controller for March 19, 2006.

### Piecemeal to strategic approach

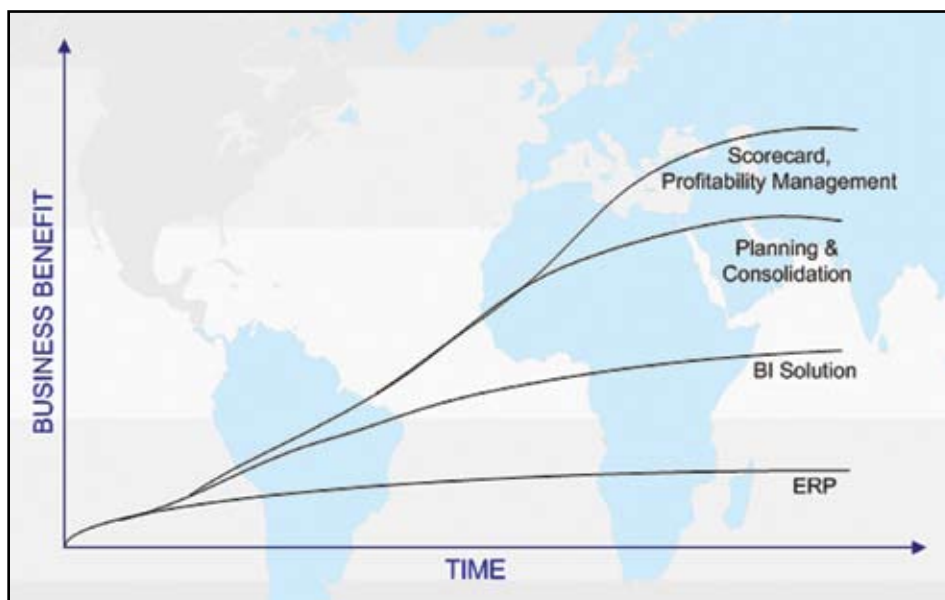
Ivan, Sam, Frank, Heather and Cindy brainstormed over an extended lunch session on taking a holistic view of what Ivan termed as “EPM Roadmap”. The virtues of Enterprise Performance Management, or EPM, Ivan explained, were many and far reaching. It encompassed not just Planning and Budgeting solution or Profitability Management solution that Frank wanted or the Scorecarding solution that Heather had wanted to implement, but it would almost alter the way EdenOne ran, managed and measured itself.

At the end of the lunch, the group decided to let Frank run the EPM effort, and Ivan volunteered to invite vendors for first round of conversations. Cindy was to report into Ervin and the board and request for budget approvals. Walking out, Cindy quipped that ‘she was becoming an IT junkie and had never imagined she would be so closely involved in IT solutions’. Ivan concurred and said that he was becoming more of a business executive than IT and demanded a higher level of coordination with business.<sup>3</sup>

Following is the High-Level EPM Roadmap that EdenOne came up with:

Application	Value Proposition	Implementation Time-Frame
Upgrade BI	New and sophisticated BI system would be easier to manage and maintain	Now
Hyperion Planning	Planning, Budgeting & Forecasting tool	Now
Hyperion Performance Scorecard	Scorecard application	Short Term
Hyperion Financial Management	Facilitates consolidation and improves close process	Medium Term
Hyperion Capital Expense Planning	Planning extension with pre-built capital expense planning functionality	Medium Term
Hyperion Workforce Planning	Planning extension with pre-built head-count, salary and compensation planning functionality	Medium Term
Hyperion Profitability Management	Correct allocation of costs will help give clear picture of profitability by product category, location, customer etc.	Long Term
Hyperion Strategic Finance	Financial modeling of alternative investment opportunities	Long Term

EPM ROADMAP FOR EDENONE



EXPECTED BUSINESS BENEFITS FROM EPM SOLUTION IMPLEMENTATION

### Enter, Ervin the CEO

EdenOne had seen healthy growth in domestic and exports markets in last few years. This gave renewed confidence to Ervin and to the board that the company was ready for aggressive growth. Towards end of 2006, Ervin had started serious conversations with the Board and Senior Management about specific overseas acquisition targets to support growth, hedge from domestic recession cycles and to invest extra cash. Cindy had recently become part of those conversations and supported the strategic direction of the company. She also knew that as EdenOne bought other companies around the globe, she would need a robust consolidation solution as well.

She was still very glad that it had been good six months that EdenOne had an EPM effort underway and had a viable road-map in place. The EPM effort was also maturing with strengthening relationships with Hyperion, the product vendor, and their consulting partner, a boutique firm focused on BI and EPM solutions. She was also glad that they were on schedule with the expected go-live of Hyperion Planning and Budgeting solution in December 2006, so that they could roll the system out with Outlook process in January 2007. She also knew that their EPM strategy would be the center-piece in executing the growth strategy.

The following week she reported Ervin's plans to the EPM Steering Committee. The committee members agreed that

they needed to act fast – actually, very fast. The committee discussed opportunities that this new direction presented and if they could implement solutions that could help Ervin and other executives manage the growth more effectively. Implementing Hyperion's Performance Scorecard solution was the number one on everyone's agenda as the next step. They also discussed implementing Hyperion Financial Management for multi-entity, multi-currency consolidation.

## 2007 – A year full of action

EdenOne did not lose much time and as they entered 2007, they announced an acquisition in Europe and a factory in China. They entered into a partnership with a local company in India to tap the local markets. All the senior executives saw new challenges and opportunities, Frank and Cindy were traveling to India, while Sam was spending time in China. Ivan was in Europe working on merger-integration. Technology was the thread that kept the company humming while executives were traveling, the BI dashboards highlighted the exceptions to existing processes, results and KPIs. This helped the traveling executives to focus and manage by exceptions in the two hour working overlap that they got with their teams in the US.

Just as the executives were crisscrossing the globe, the Performance Scorecard effort was being rolled out in the US. The scorecards were a close reflection of the global expansion strategy and operational efficiency measures. The Logic Models broke down the strategy into measurable and accountable actions across four perspectives of Learning & Growth, Internal Processes, Customer and Financials. Implementing Hyperion Performance Scorecard was a significant leap ahead, as it took EdenOne way beyond traditional KPI focused Dashboards and helped it manage and measure the company's strategy implementation in a truly proactive manner. It also allowed unprecedented collaboration between supply chain, plants/operations, sales and finance. The exceptions were captured dynamically, corrective actions were implemented and both tracked and documented. They could trend the improvement in a particular measure and know if their tactical initiatives were resulting in tangible and measurable improvements or not.

The benefits of the EPM effort within the company were lauded by one and all and Ervin always found a way to mention the Hyperion Planning or Hyperion Performance Scorecard in the Analyst calls. This, he said, reflected to the stakeholders that EdenOne was on the cutting edge when it came to managing the business tight and the executives knew that there was no revenue loss or expense leakage and EdenOne was on top of compliance issues.

The rising stock price was a positive reflection of enhanced confidence the market had in Ervin and EdenOne.

## DÉJÀ VU – ECONOMY SLOWS DOWN AGAIN

### STAGE IV: SPEED UP YOUR INVESTMENTS

While EdenOne's executives were basking under the warmth of their global growth, the local economy started to show signs of slow down towards the end of 2007. By January 2008, the signs of economic slowdown became more pronounced. Although the results of 2007 were still strong, a section of Board started questioning if a 'Growth Oriented CEO' was the best choice to navigate EdenOne through the recession.

Ervin was keenly aware of cutting costs and requested a two day off-site meeting with his Executive team to review 2008 budgets and expenditure in light of economic slow-down. Along with their departmental presentations, Cindy and Ivan sponsored a special session on EPM Roadmap. In the off-site in February 2008, the EPM Steering Committee made a strong business case for EPM projects and suggested continued investment in Hyperion Financial Management go-live in Q2 of 2008 and Hyperion Business Modeling, Hyperion Profitability Management and Hyperion Strategic Finance as the next set of products to be implemented, not necessarily in that order. While the Executive committee was unanimous in slashing costs at many places, they were equally unanimous in investing in R&D and innovation and maintaining the push for EPM projects. Ervin actually argued to expedite EPM adoption with rolling out Scorecard globally and opined that EdenOne still had plenty cash remaining for more buy-outs in late 2008 or early 2009 when many a good assets will be available for much lower cost. To optimize the M&A evaluation criterion, Ervin requested prioritizing the implementation of Hyperion Strategic Finance (HSF) by summer 2008.

With the help of Scorecard solution, they evaluated which initiatives were aligned with the EdenOne's revised corporate objectives for 2008 and 2009. They identified cost cutting measures of about 2.7 percent of sales – something that was going to directly impact the bottom-line.

### The Board Meeting

Ervin reported to the board that he and the executives had identified expenses that totaled to about 2.7 percent of sales and that it was giving more aggressive push to EPM adoption. The board wanted more aggressive cuts in expenditure and wanted to slow down EPM efforts and cut consulting costs. Charlie the critic led a more vocal beating of Ervin.

Ervin was better prepared and his next slide showed the gains made from EPM efforts:

## EPM PROJECT: EXECUTIVE BRIEFING

Effort	Tangible *	Intangible *	Comment
Business Intelligence	\$1.0M	3 man-months	<ul style="list-style-type: none"> <li>• Savings on renegotiated supplier contracts</li> <li>• Analysts spending less time chasing data and more time analyzing</li> </ul>
Hyperion Planning	\$0.5M	1.5 FTE	<ul style="list-style-type: none"> <li>• Scenario Modeling can be done in matter of hours instead of days</li> <li>• Reduced rework has helped us promote one Analyst to Manager of Financial Planning &amp; Analysis (FP&amp;A)</li> <li>• Our forward looking commitments to Wall Street are based on our business drivers therefore and more accurate and realistic</li> </ul>
Hyperion Performance Scorecard	\$3.5M		<ul style="list-style-type: none"> <li>• Will help eliminate initiatives that do not align to our 2008 and 2009 corporate goals.</li> <li>• Accountability, visibility and collaboration across the organization.</li> <li>• Encourages people to be more productive and collaborative.</li> <li>• Global roll-out will save countless hours of phone and e-mail conversations.</li> <li>• Ensured strategic alignment with 2008/09 and global expansion goals</li> </ul>
Hyperion Financial Management	\$0.5M	1.5 FTE	<ul style="list-style-type: none"> <li>• For 2007, EdenOne had to borrow one FTE from FP&amp;A who worked average 12 hour days during closing. That FTE goes back to her department</li> <li>• Own FTE will be promoted as Manager of Consolidation Systems reporting into the Assistant Controller</li> <li>• Accurate numbers, no manual processes, Compliant system, Reduced rework</li> </ul>
Hyperion Profitability Management	\$1.5M		<ul style="list-style-type: none"> <li>• Accurate and realistic allocation of costs will help identify un-profitable products, sales offices and customers.</li> <li>• Go Live in 2009.</li> </ul>

\* Estimated Savings Per Year

The next slide in Ervin's presentation contained the tag-line:

EPM Savings Scorecard:

Savings in Tangible terms = \$7.0 million  
Savings in Intangible terms = 3 FTEs

**Having confidence and visibility into EdenOne's business = Priceless**

## CONCLUSION

The board was totally impressed by the two closing slides on EPM. Ervin got unanimous support and Charlie the critic turned appreciative and was the first to support extension of Ervin's term by another five years. EPM project got full funding and support even when the economy was slowing down. This reflected that Board and Executives considered it as a *strategic investment* rather than an expenditure. Ervin and the Executive Committee were proud that their Board had ensured that EdenOne remained a winning Type A company and their push for EPM.

<sup>1</sup>ABB implemented Hyperion Strategic Finance. Read about their success story at [www.oracle.com](http://www.oracle.com).

<sup>2</sup>Doux Group implemented Hyperion Financial Management and Associated Reporting Suite to get visibility into profitability and other operational, as well as financial, KPIs.

<sup>3</sup>Read more about EPM Roadmap at [www.syntelli.com/RAE](http://www.syntelli.com/RAE).

## About Syntelli Solutions Inc.

Syntelli Solutions is a dynamic, fast growing consulting company focused on BI and EPM Solutions. Our expertise is in helping our clients define and execute their BI and EPM vision by partnering and collaborating. We deliver the best solution at the best available price-points. For your BI and EPM design, install and implementation and training needs please visit us at [www.syntelli.com](http://www.syntelli.com) or call 877.SYNTELLI (796.8355).

