

Deloitte.

Corporate Performance Management

Linking Strategy to Execution

Cognos Users Group Meeting

January 28, 2003



“Those that successfully deploy a corporate performance management system will outperform their industry competitors”

- Gartner Inc. -

... How are you steering your business?



Corporate Performance Management (CPM)

GARTNER'S VIEW

Gartner has coined the phrase "Corporate Performance Management" (CPM) and defines it and its key implementation drivers as follows:

Definition

"Corporate Performance Management (CPM) is the combination of methodologies, metrics, processes and systems used to monitor and manage the business performance of an enterprise"

Implementation Drivers

To increase the quality of the management reports.

To increase the speed, quality and accuracy of decision making.

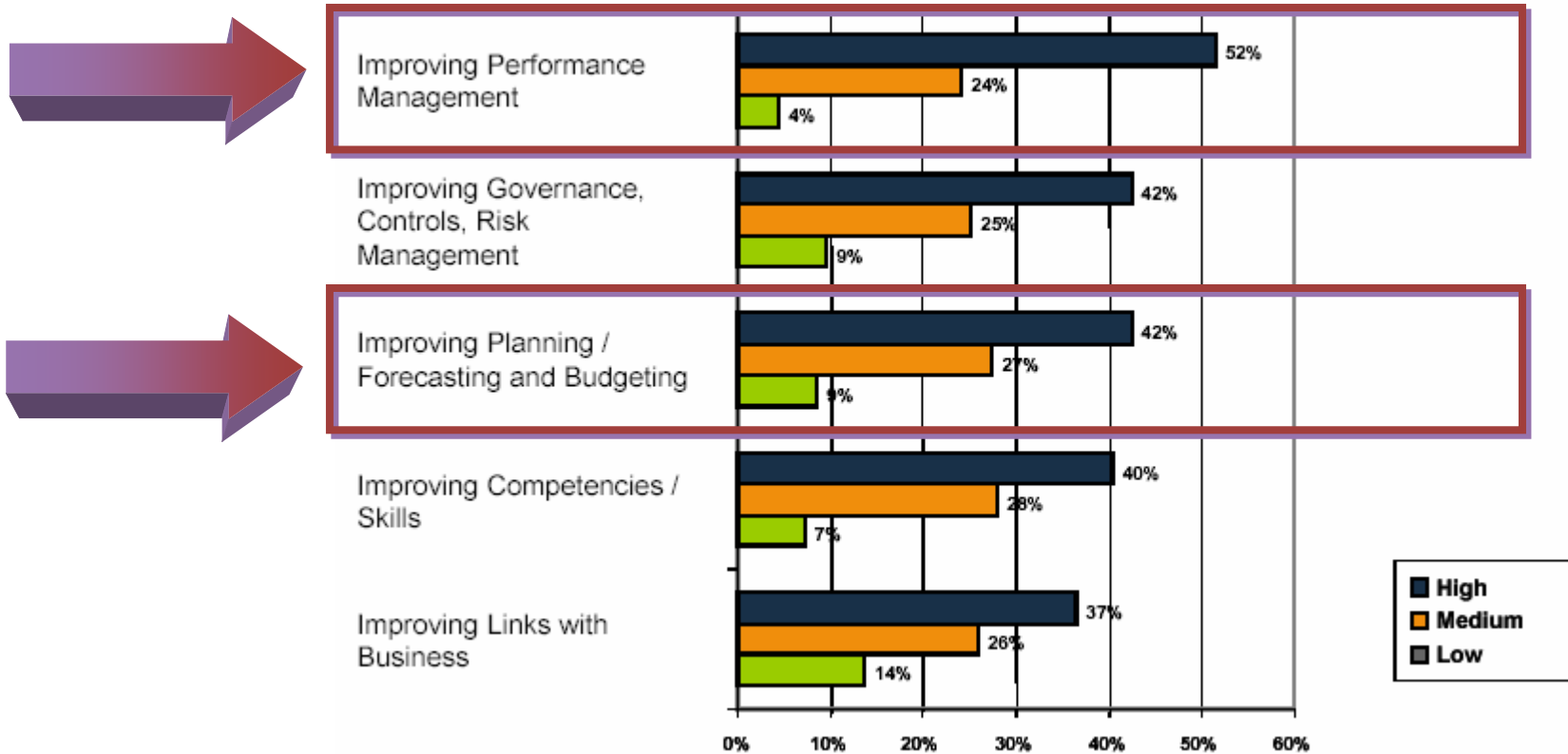
To increase the agility of the planning process in more turbulent environments.

To create the necessary organizational alignment for tight strategy execution.

To facilitate corporate transparency.

CPM is Clearly a Challenge

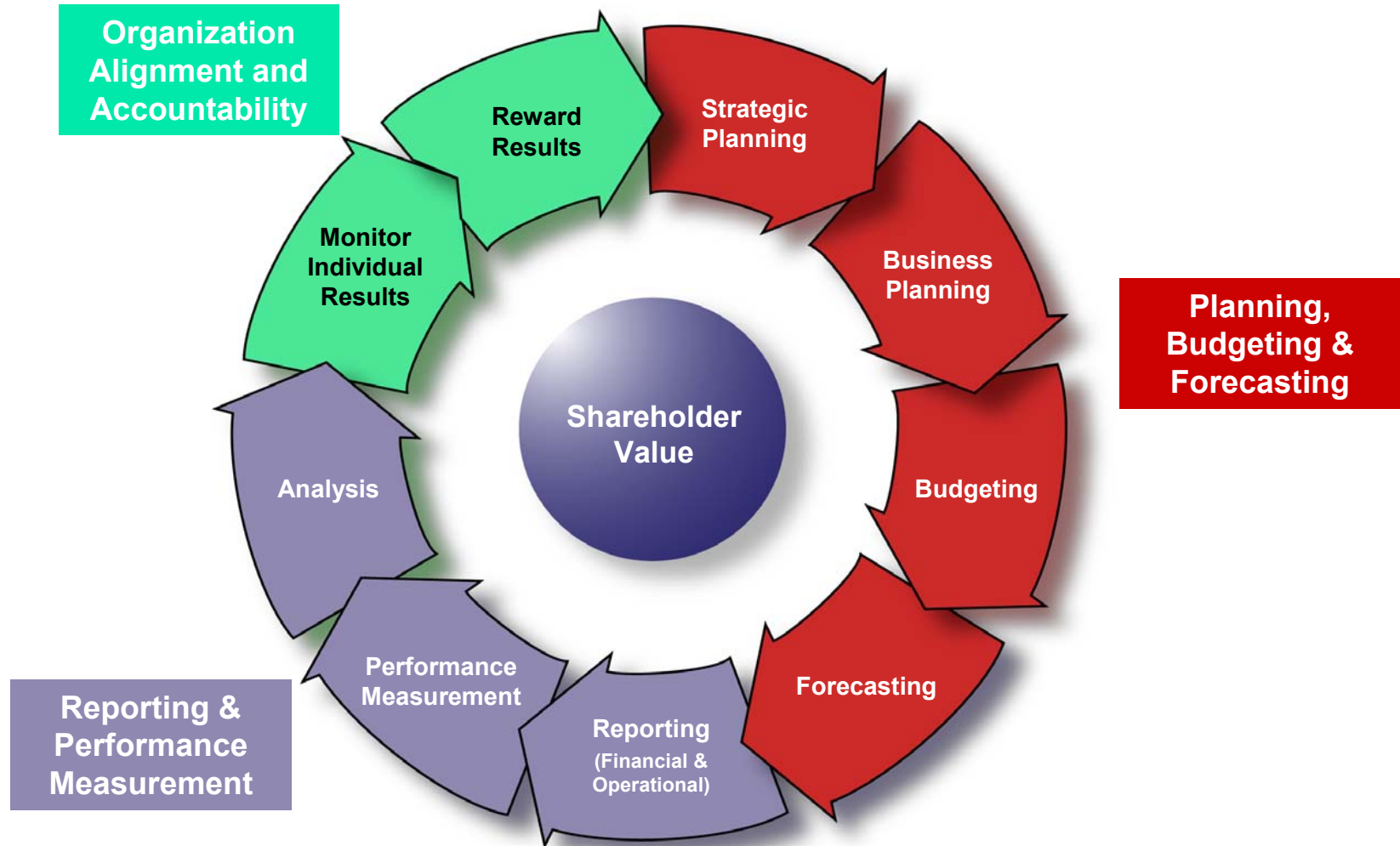
Surveys have shown that CPM is a key challenge that is top of mind:



Source: Global CFO Survey 2003: University of Ausburg/IBM

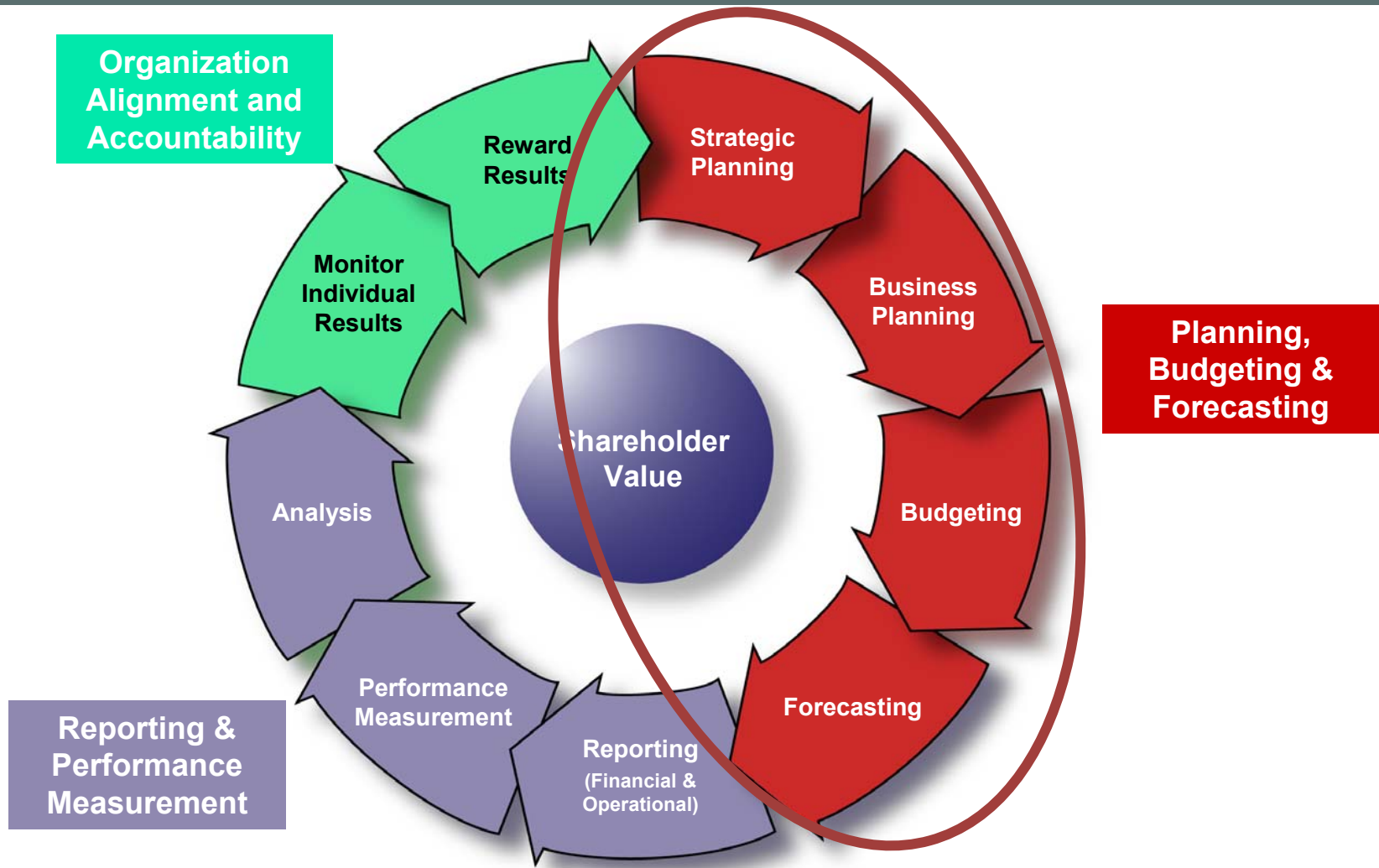
Deloitte's CPM Framework

We have broken down the key components required for an effective CPM program into three broad areas:



Deloitte's CPM Framework

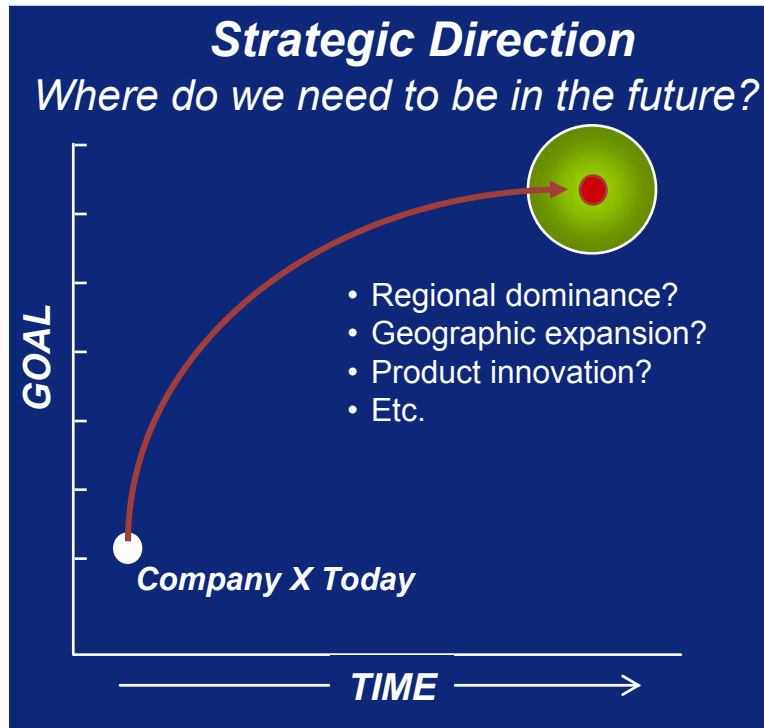
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Typical Issues

1. Strategic Plan doesn't provide enough direction in terms of objectives and strategies.
2. Investment decision-making is not linked to the strategy.
3. Lack of prioritization of spending across business units.
4. Don't have a good balance between top-down financial modeling and bottom-up budgeting.
5. Budgeting and forecasting processes are too labour-intensive.
 - Budget at too low level of detail
 - Using spreadsheet as the budgeting toolBudgeting and forecasting is a Finance exercise.
 - Disconnect between business operating reality and the budget
 - Financial accountability not pushed to operational management

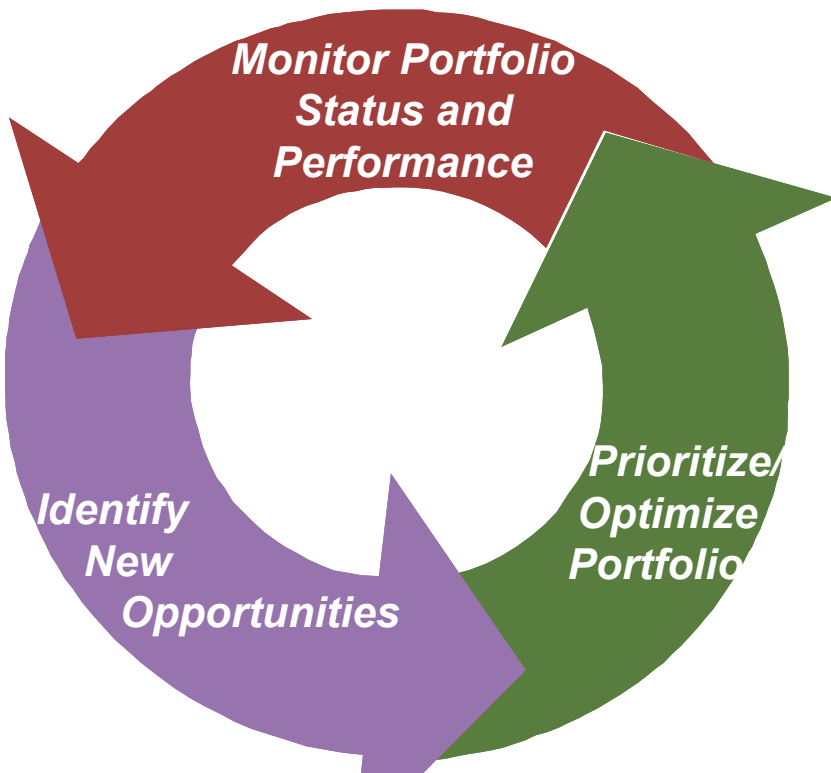
1. Strategic Plan doesn't provide enough direction in terms of objectives and strategies.



Set a long-term vision and objectives and work backwards to translate this into tangible strategies and initiatives.

2. Investment decision-making is not linked to the strategy.

Rolling Investment Decision-Making Process



Supporting Tools

Investment Decision-Making Committee



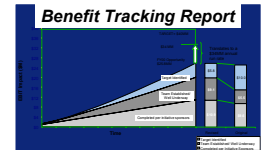
Standard Business Case Template



Investment Decision-Making Framework



Standard Progress & Benefit Reporting



Put in place a rolling investment decision-making process, supported by tools that ensure alignment with the strategy.

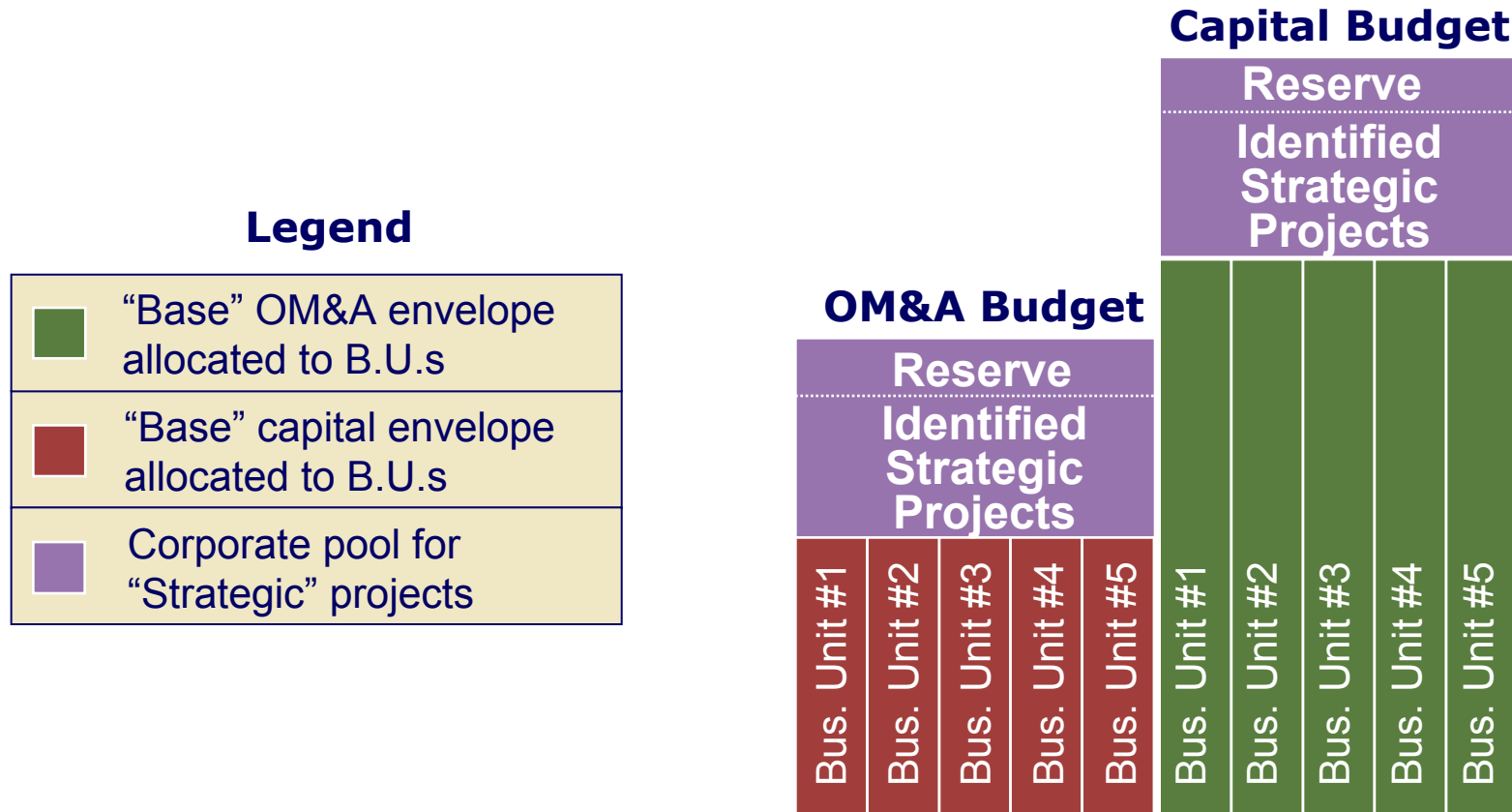
2. Investment decision-making is not linked to the strategy.
-CONTINUED-

Sample Investment Decision-Making Framework



Categorizing investments helps the Executive to think about the target mix for the portfolio of projects and recognizes the fact that different criteria should apply to different types of investment.

3. Lack of prioritization of spending across business units.



Using a strategic reserve requires business units to compete for project funding with other business units.

4. Don't have a good balance between top-down financial modeling and bottom-up budgeting.



Use a driver-based financial model to set top-down targets and engage the various parts of the business in a bottom-up planning process. Use an iterative process to come to agreement.

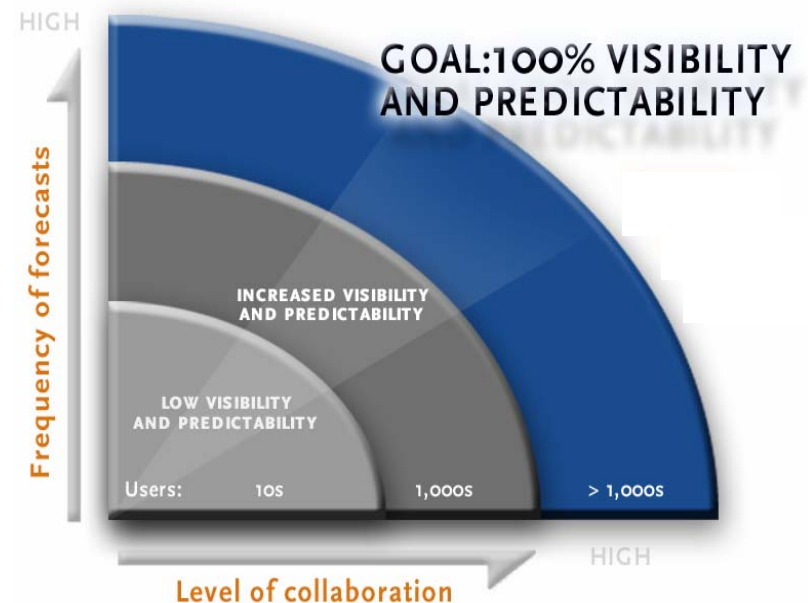
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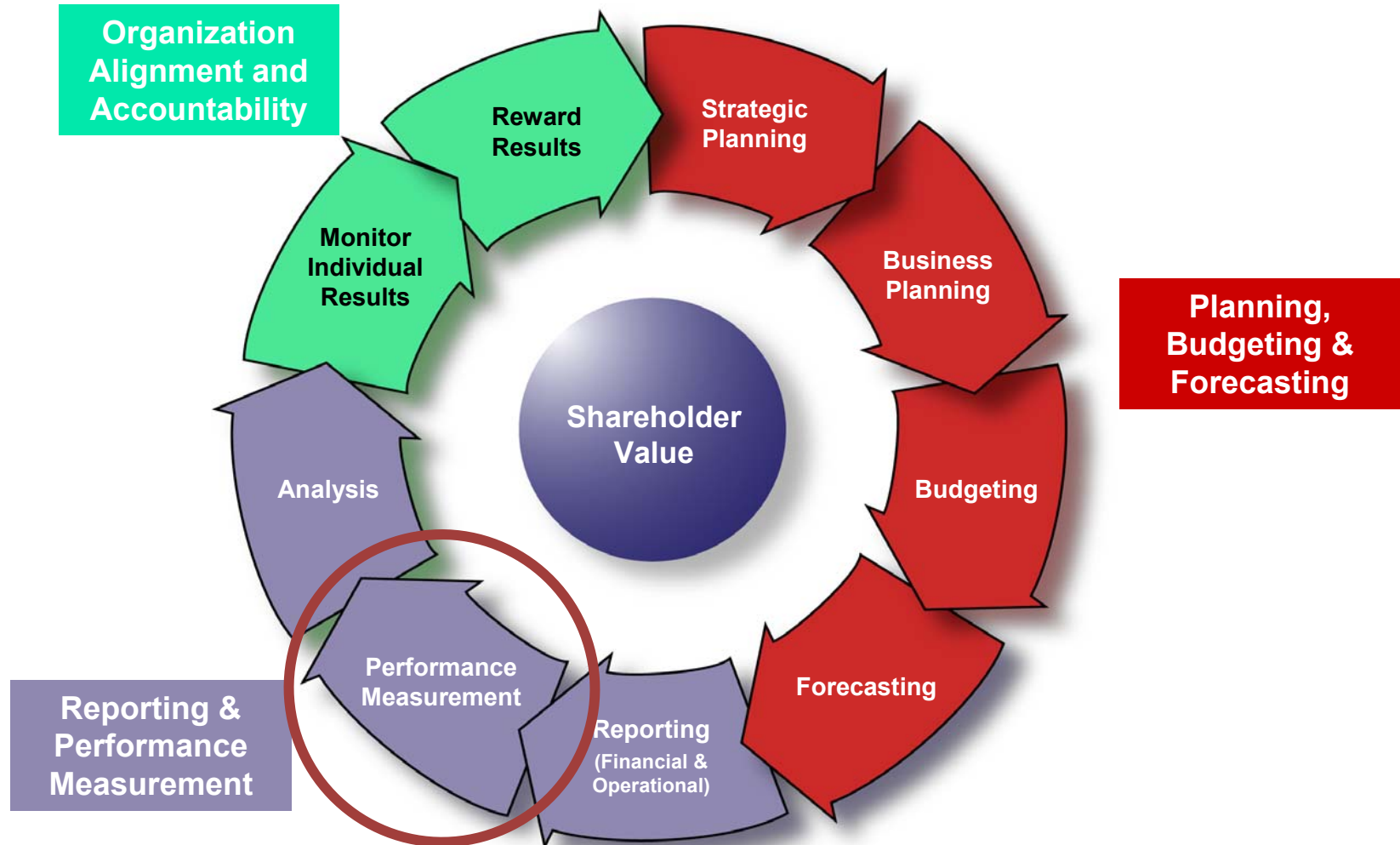
**Enterprise
Planning
Application**



Implementing best-in-class planning applications can enable increased efficiency, frequency, collaboration, predictability, and visibility.

Deloitte's CPM Framework

We have broken down the key components required for an effective CPM program into three broad areas:



Typical Issues

1. KPI's are not linked to the strategy and value drivers of the business.
2. Too much focus on "lagging indicators", not enough focus on "leading indicators".
3. Too many measures!
4. KPI's are limited to a corporate scorecard. They are not deployed enterprise-wide across and down through the organization.

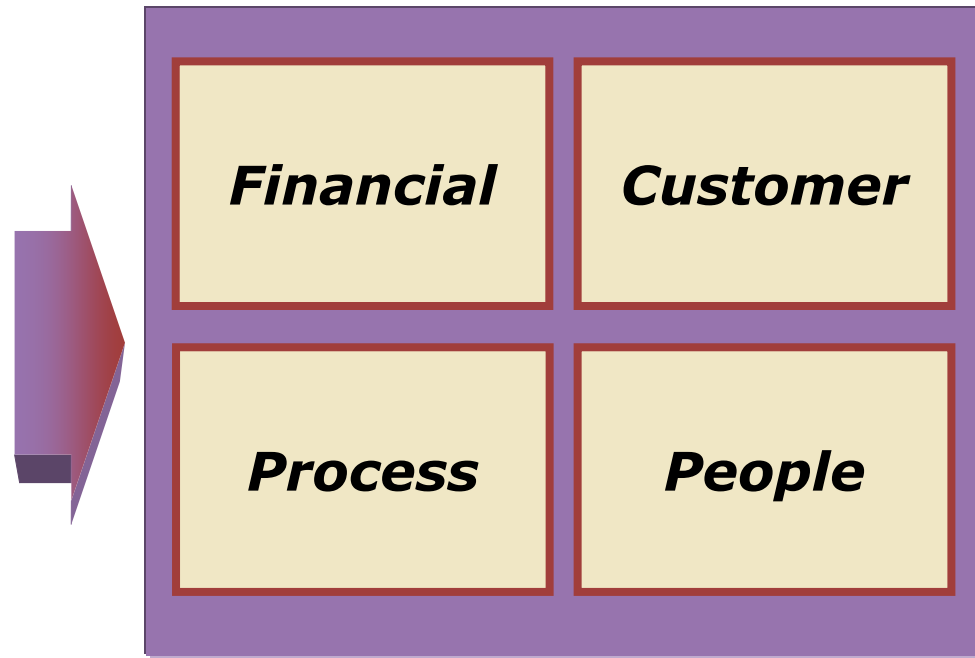
Typical Issues

1. KPI's are not linked to the strategy and value drivers of the business.

Strategic Planning Framework



Performance Measurement Framework

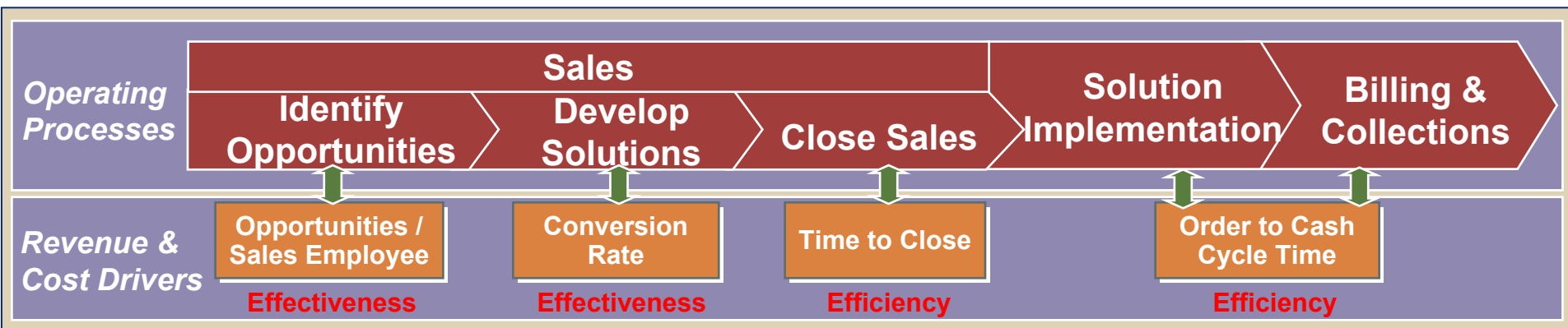
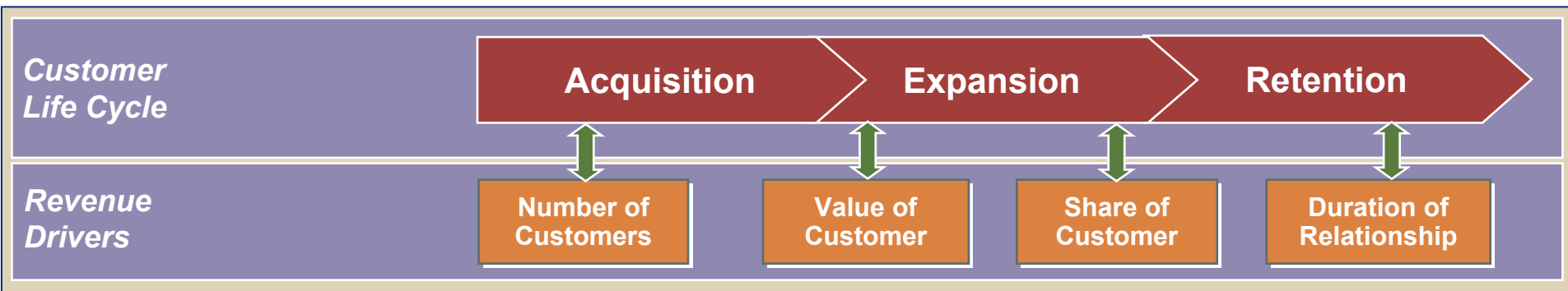


The strategic plan needs to be translated into a balanced set of objectives to be measured. The main link to strategy will be to the Strategic Objectives and Desired Outcomes.

Typical Issues

1. KPI's are not linked to the strategy and value drivers of the business. -CONTINUED-

Client Example: Linking Measures to Value Drivers for a Sales Function



Measuring the value drivers provides focus on, and accountability for indicators that will impact shareholder value.

2. Too much focus on “lagging indicators”, not enough focus on “leading indicators”.

Sample Measures

Lagging Indicators

- **Cash Position**
- **Gross Margin**

- **Revenue Growth**
- **Market Share**

Leading Indicators

- **Receivables Turnover**
- **Inventory Turnover**
- **Customer Acquisition Cost**
- **Customer Service Cost**
- **Canceled Orders**

- **Lead Sales Volume (Funnel)**
- **Customer Retention**
- **Revenue per Customer**
- **# New Customers**

Productivity

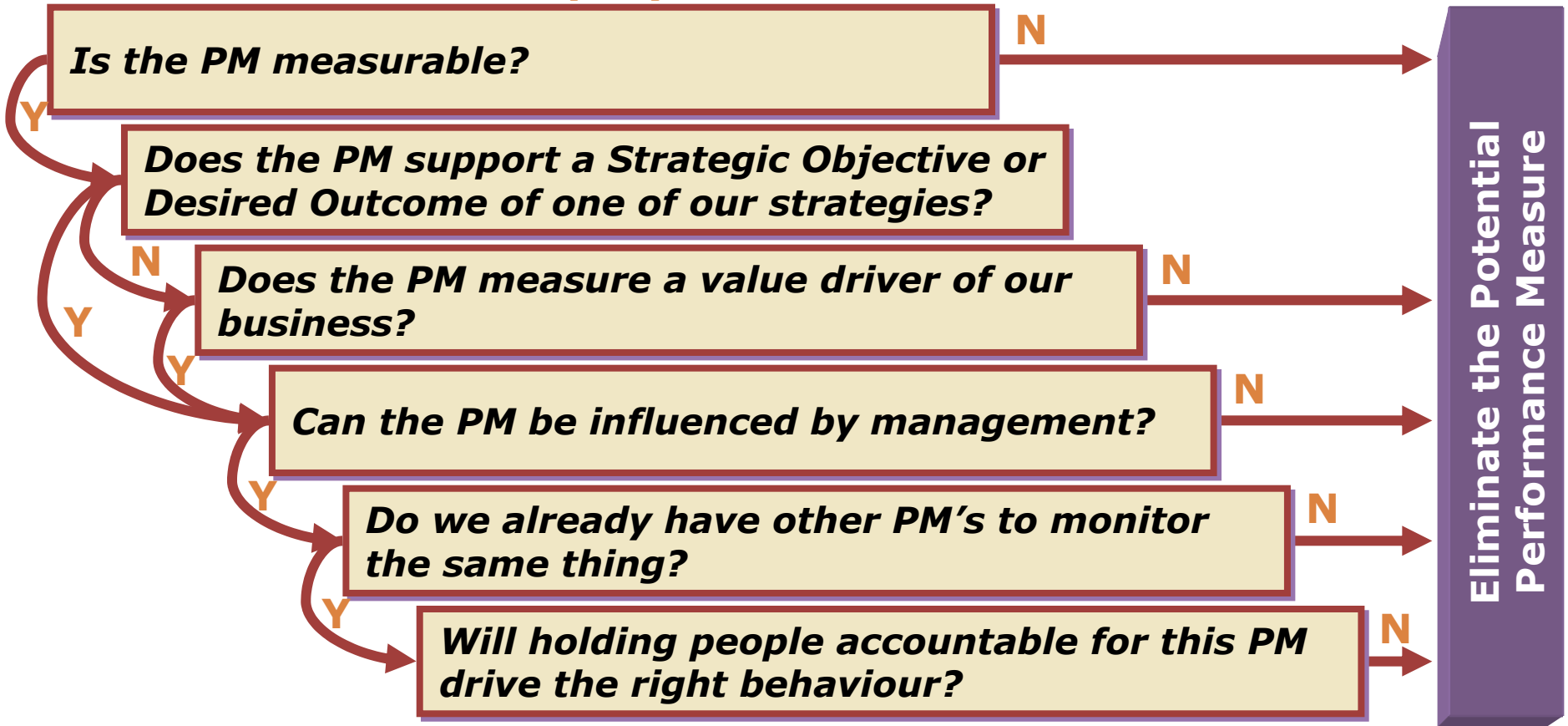
Growth

A balance of leading and lagging indicators is important to provide an in-depth understanding of corporate performance.

Typical Issues

3. Too many measures!

Performance Measure (PM) Filter



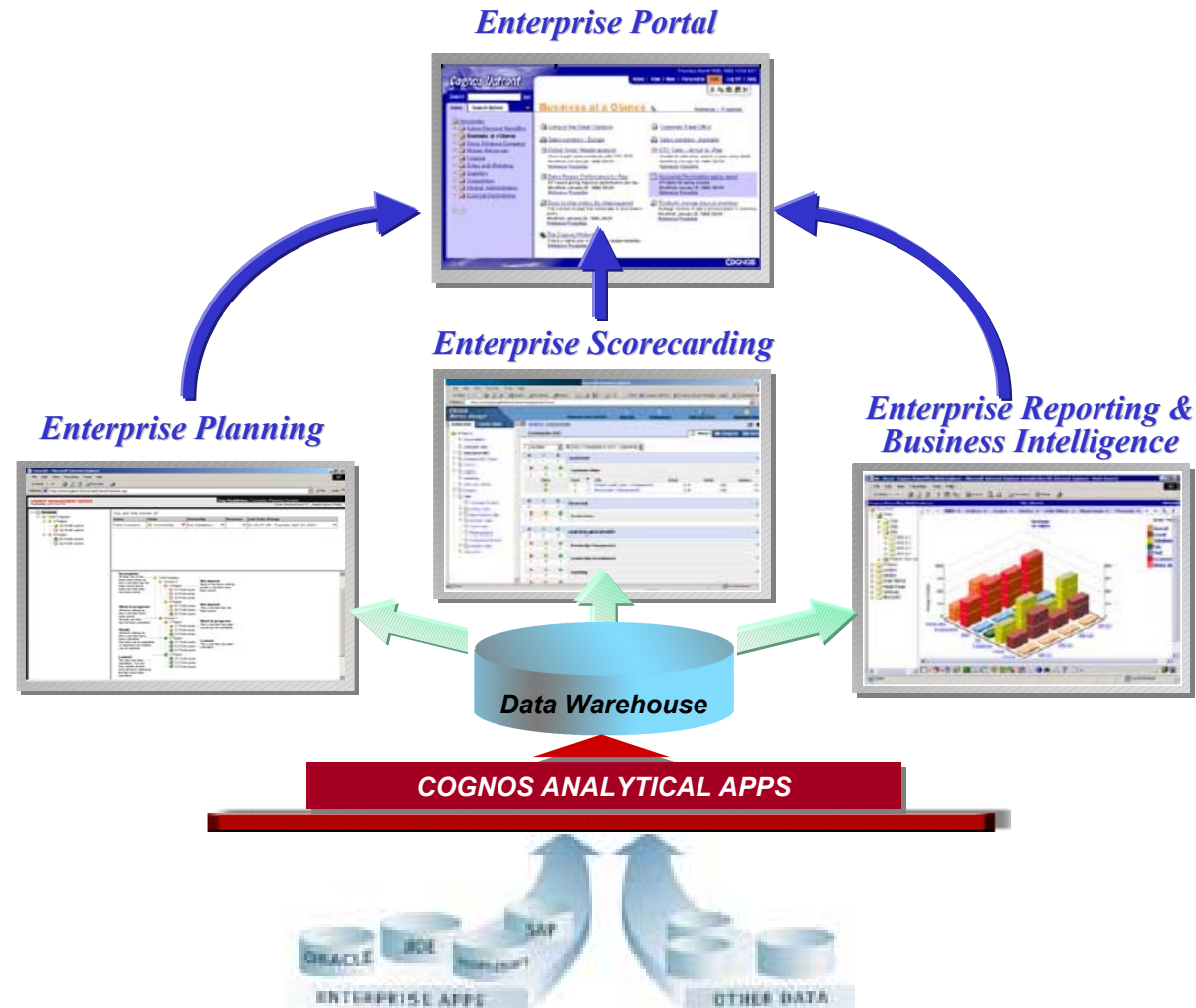
Everyone has their own ideas about what to measure. To ensure focus, you need to filter your measures – measure what matters.

Typical Issues

Reporting and Performance Measurement

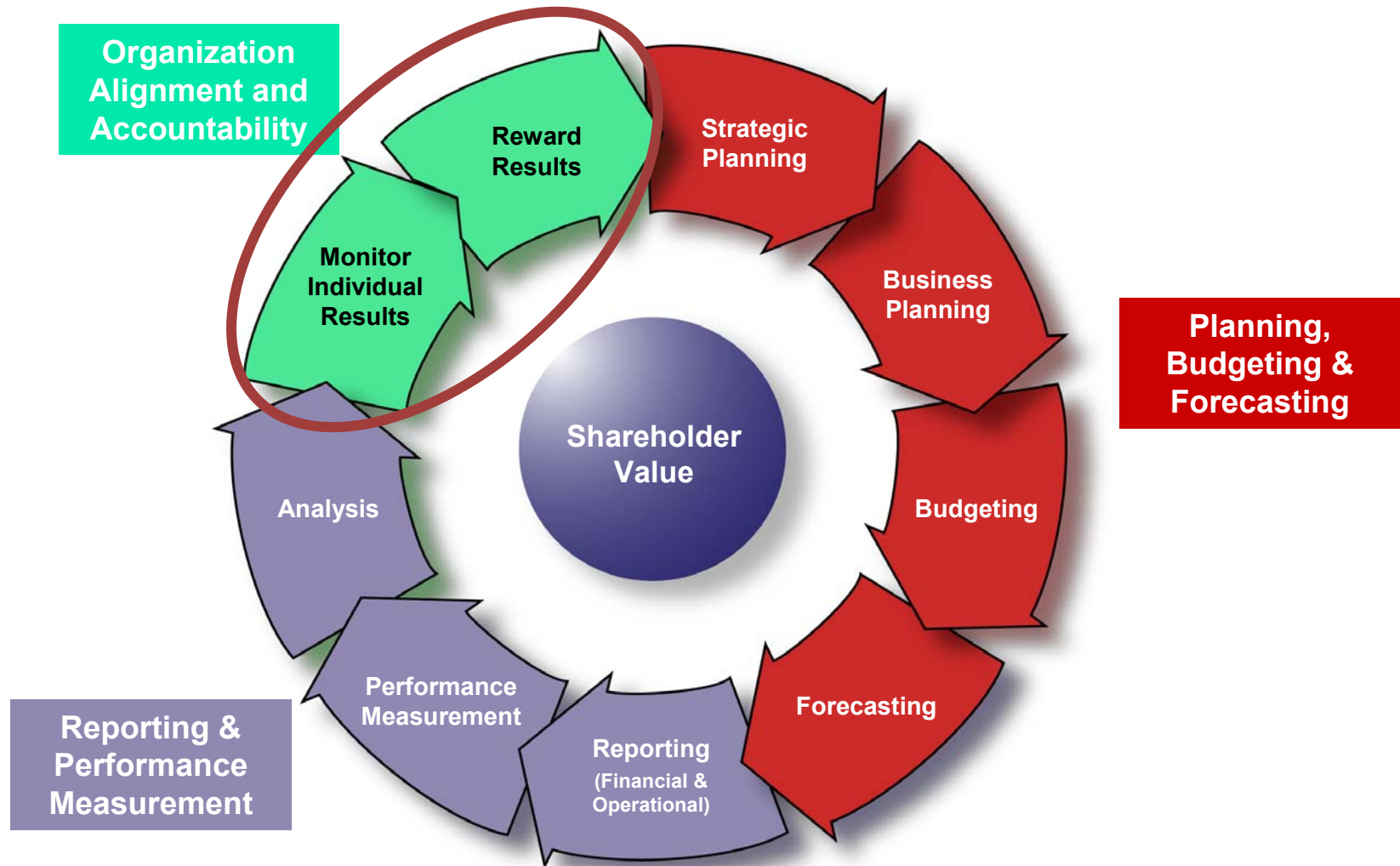
4. KPI's are limited to a corporate scorecard. They are not deployed enterprise-wide across and down through the organization.

Without deploying an enterprise-wide performance measurement application, the cost of manually collecting data and preparing reports limits the use and acceptance of performance measurement.



Deloitte's CPM Framework

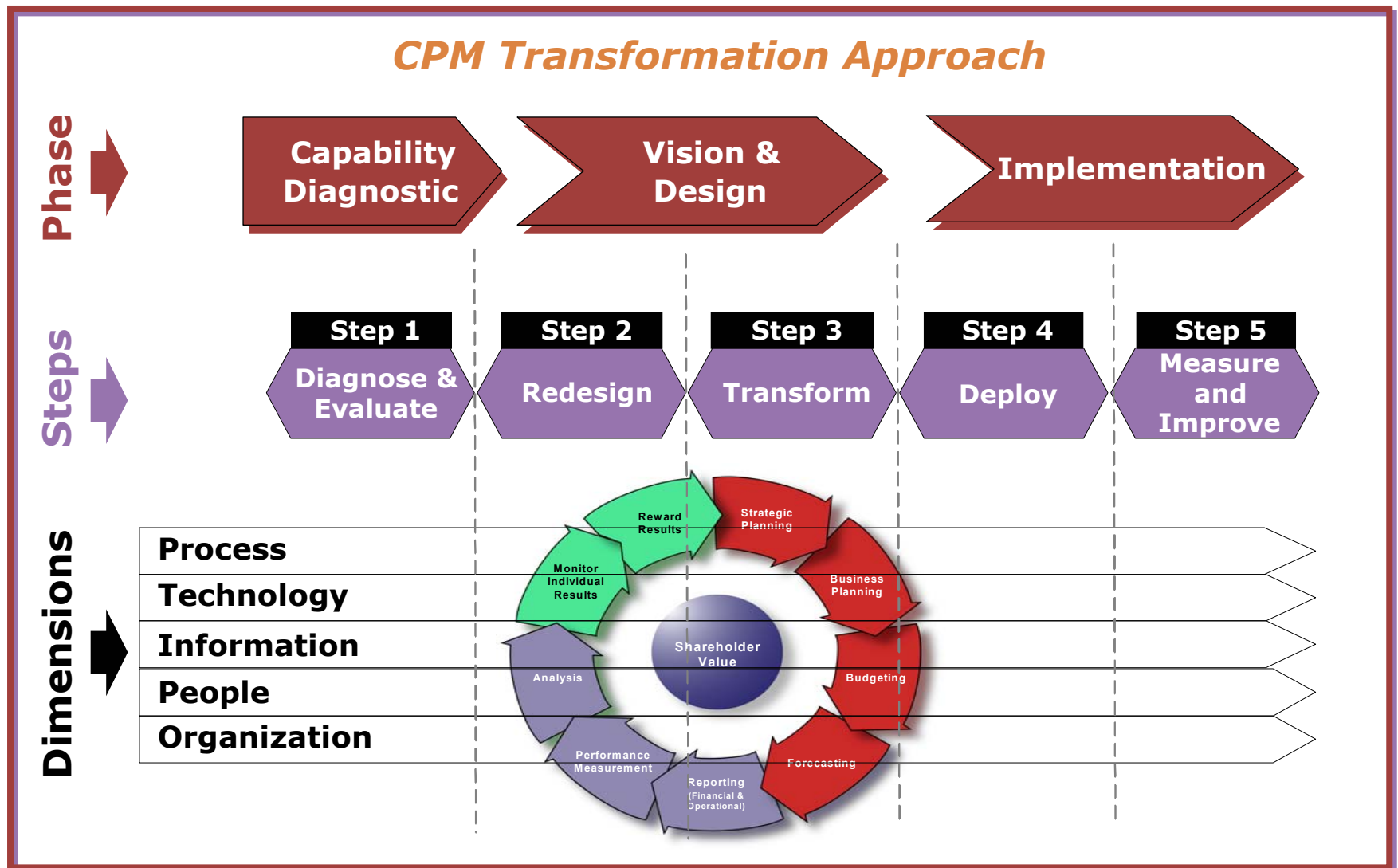
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Typical Issues and Potential Solutions

1. Individuals don't set personal objectives aligned to strategic objectives.
2. Individual performance assessment is not based on performance against KPI targets nor the achievement of personal objectives.
3. Individual performance assessment has little or no impact on compensation and/or career progression.
4. Variable pay structure encourages behaviour that is inconsistent with the corporate strategy.

CPM Transformation Requires a Holistic Approach



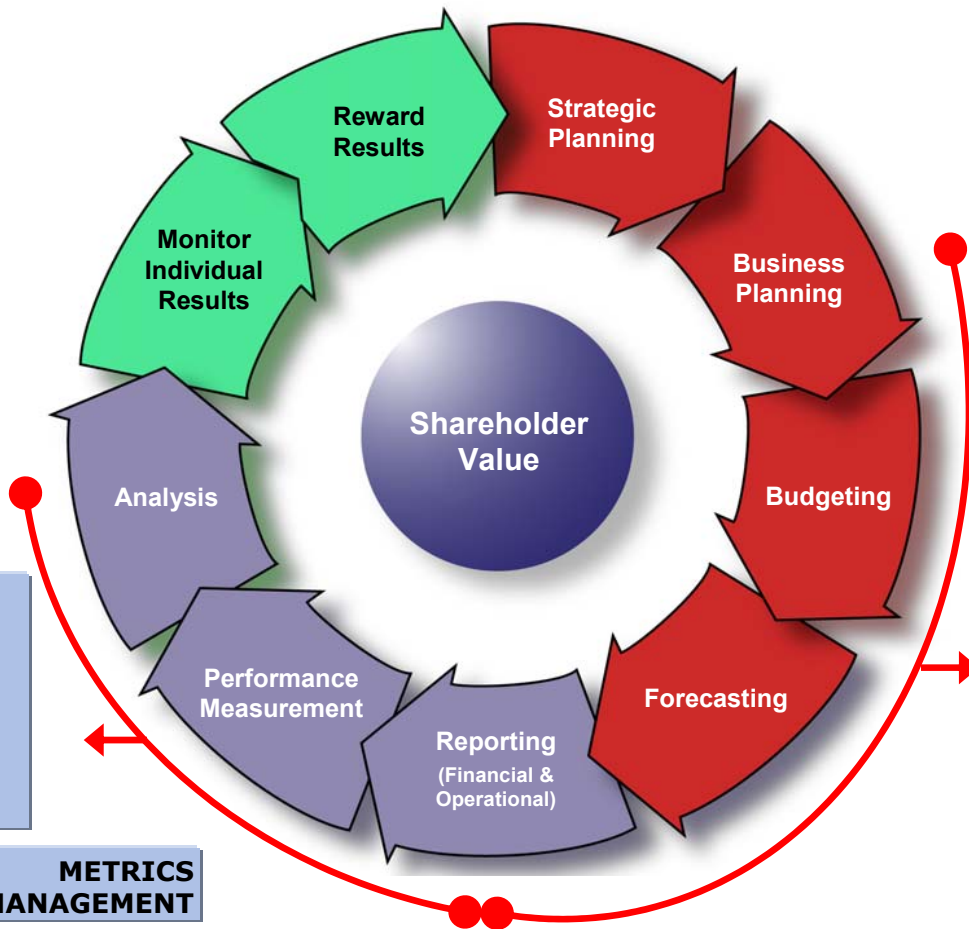
CPM Requires a Partnership Between the CEO/COO/CFO and the CIO

- Typically, the push for CPM comes from the CEO, COO, or CFO.
- However, to be implemented successfully, technology is key.
- As a result, a close partnership between the CEO / COO / CFO and the CIO is critical.
- Having said that, one of the goals of the CIO should be to implement CPM solutions that, once implemented, truly enable and empower the end users.



Deloitte and Cognos

The Cognos CPM suite enables many of these processes.



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