

Analytics-Based Enterprise Performance Management

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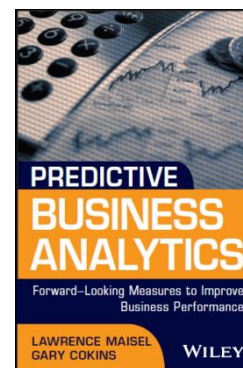
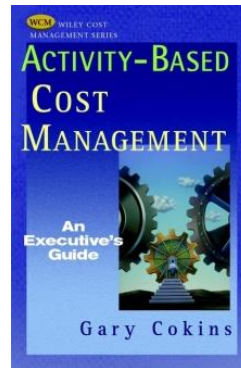
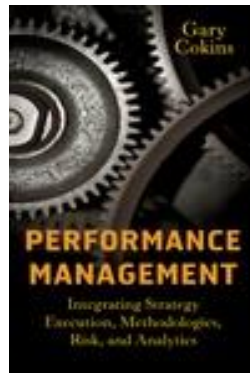
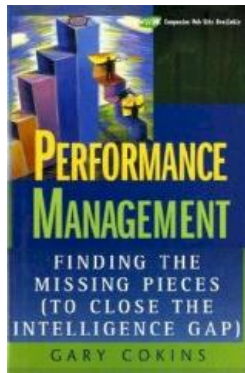
October 26, 2015

About Gary Cokins

Founder, Analytics-Based Performance Management LLC

B.S. Industrial Engineering & Operations Research;
Cornell University, 1971

M.B.A. Finance & Accounting; Northwestern University,
Kellogg Graduate School of Management, 1974



Previous Associations:

- FMC Corporation
- Consultant with: Deloitte,
KPMG Peat Marwick,
Electronic Data Systems [EDS, now HP]
- SAS

Who will benefit from this presentation?

Managers who have previously struggled at promoting FP&A, enterprise performance management (EPM) and integrating business analytics (BA) into their decision support systems.

Managers who need a compelling call to action.

Key questions

What? So what? Then what?

AGENDA

- **What is Enterprise Performance Management?**
- **What is Business Analytics?**
- **Eight Pressures that have caused interest in EPM**
- **EPM as a Value Multiplier through Integration**

Drowning in data but starving for information.



“Looks like you’ve got all the data – what’s the holdup?”

Confusion and Lack of Consensus about EPM

Is it human resources PM?

Is it scorecards, dashboards, KPIs and measures?

Is it alignment, such as strategic or resource allocation?

Is it process, productivity and quality improvement?

Or ... is it all of the above? And even more?

The good news is this

What is Analytics-based Performance Management?

Analytics-based Performance Management is the integration of multiple methodologies with each embedded with business analytics, such as segmentation analysis, and especially predictive analytics ... to achieve the strategy and to make better decisions.

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Confusion and lack of consensus about BA

Is business analytics (BA) a data warehouse?

Is it data mining with query and reporting?

Is it business intelligence (BI) with enhancements?

Is it the technology of data governance, management and quality?

Is it probabilities and statistics, like regression and correlation analysis?

Is it forecasting? Is it optimization equations?

Or ... is it all of the above? And even more?

Work backwards with the end in mind.

Regardless of how “analytics” should be defined, there should be no argument as to its purpose:

Better decisions. Better Actions.

Analytics’ goal should be to gain insights and solve problems, to make better and quicker decisions with more accurate and fact-based data, and to take actions.

Improving Performance by Unifying EPM and BA

- BI Reporting *consumes* stored information.
- Business Analytics *produces* new information.
- Enterprise Performance Management *deploys* Analytics.

Business Analytics – insights and actions

Queries simply answer questions. Business analytics creates questions.

Further, analytics then stimulate more questions, more complex questions, and more interesting questions.

Most importantly, business analytics also has the power to answer the questions.

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What has caused interest in EPM?

- 1 Executives frustrations with strategy failure.**
- 2 Increased accountability.**
- 3 More rapid decision making.**
- 4 Mistrust of the managerial accounting system for transparency.**
- 5 Poor customer value management**
- 6 Contentious budgeting – poor resource capacity planning.**
- 7 Dysfunctional supply chain management.**
- 8 Unfulfilled ROI promises from IT systems – lack of integration.**

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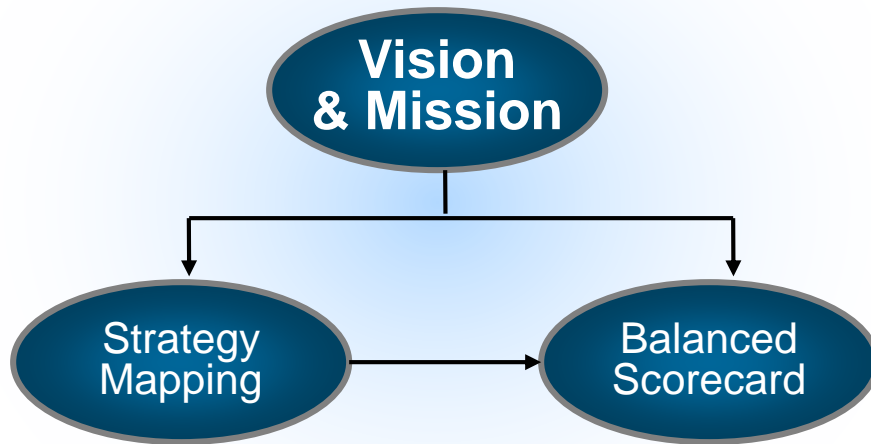
7 Dysfunctional supply chain management.

8 Unfulfilled ROI promises from IT systems – lack of integration.

What has Caused Interest in EPM?

- 1) Failure by executives to execute their well-formulated strategy.

Vision and Mission Statements



A Vision statement answers
“where do we want to go?”

Strategy maps and scorecards answer,
“How will we get there?”

The strategy map and scorecard are mechanical.
They help realize the vision and mission.

Vision & Mission

Exceed shareholder expectations

Financial

Diversify income stream

Increase sales volume

Improve profit margins

Customer

Diversify customer base

Increase sales to existing customers

Test new products

Internal Process

Target profitable market segments

develop new products

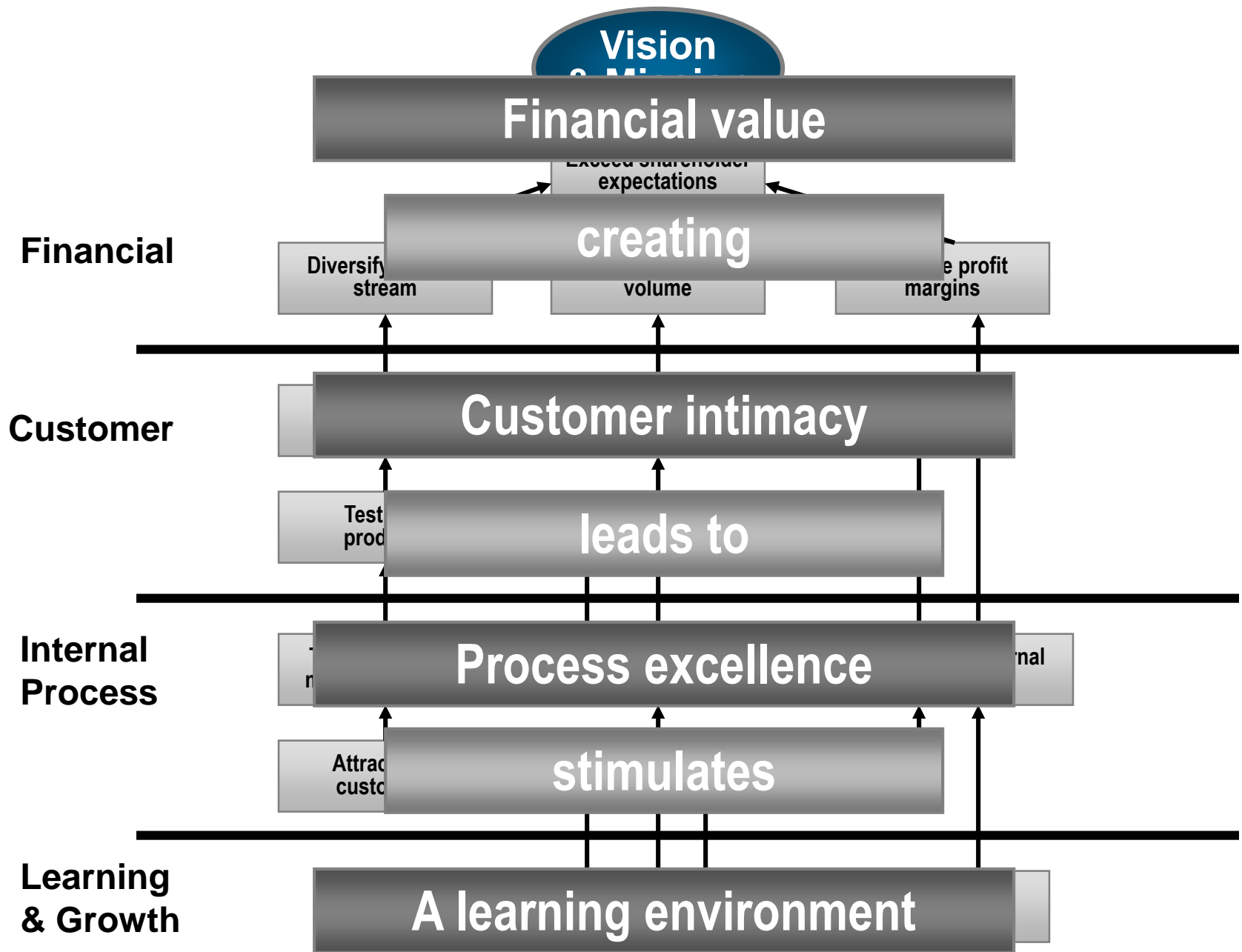
Optimize internal processes

Learning & Growth

Attract new customers

Develop employee skills

Integrate systems



What has Caused Interest in EPM?

- 4) Mistrust of the managerial accounting system and its flawed cost allocations and misleading cost reporting of outputs, products, standard service-lines, channels, customers and outcomes.

A simple explanation of ABC.

Mistrust of the managerial
accounting system ...
... for accuracy and transparency lead to
applying activity-based costing (ABC).

The General Ledger View is *Structurally Deficient for Decision Analysis.*

Chart-of-Accounts View			
Insurance Claims Processing Department			
	<u>Actual</u>	<u>Plan</u>	Favorable/ (unfavorable)
Salaries	\$621,400	\$600,000	\$(21,400)
Equipment	161,200	150,000	(11,200)
Travel expense	58,000	60,000	2,000
Supplies	43,900	40,000	(3,900)
Use and occupancy	30,000	30,000	—
Total	<u>\$914,500</u>	<u>\$880,000</u>	<u>\$(34,500)</u>

When managers get this kind of report, they are either happy or sad, but they are rarely any smarter!

Each Activity Has Its Own Cost Driver

From: General Ledger

Chart-of-Accounts View

Claims Processing Department

	<u>Actual</u>	<u>Plan</u>	<u>Favorable/ (unfavorable)</u>
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To: ABC Data Base

Activity-Based View

Claims Processing Dept

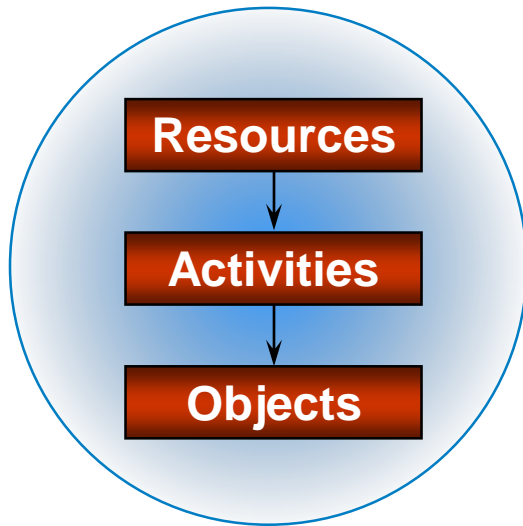
Key/scan claims	\$ 31,500	← #of —
Analyze claims	121,000	← #of —
Suspend claims	32,500	← #of —
Receive provider inquiries	101,500	← #of —
Resolve member problems	83,400	← #of —
Process batches	45,000	← #of —
Determine eligibility	119,000	← #of —
Make copies	145,500	← #of —
Write correspondence	77,100	← #of —
Attend training	158,000	← #of —
Total	\$914,500	

Activity cost drivers

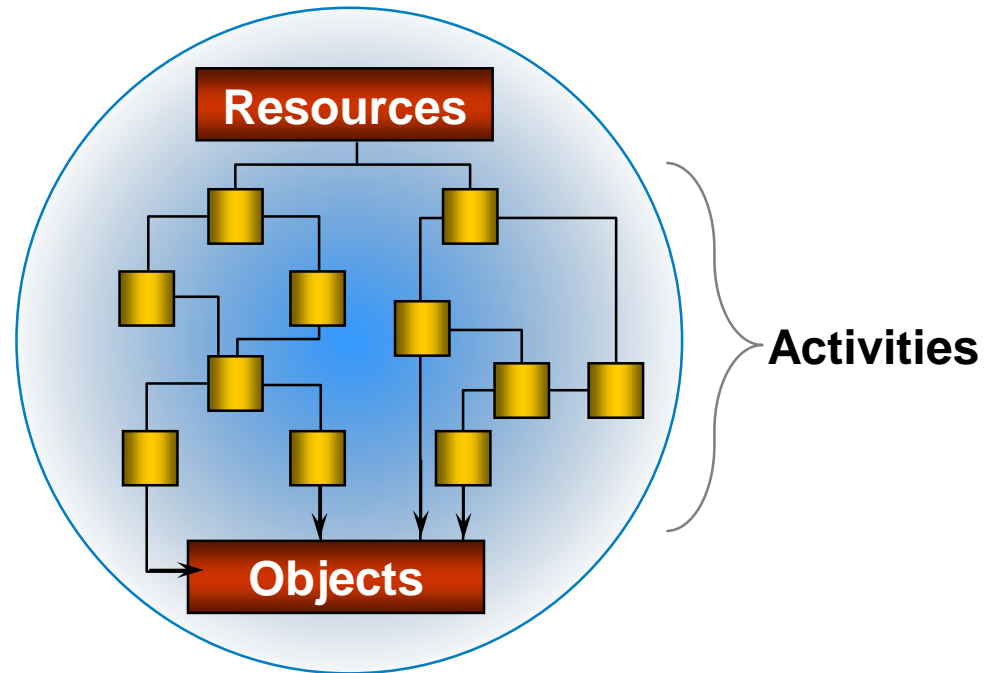
Products / customers

\$914,500

Multiple-Stage Cost Flowing

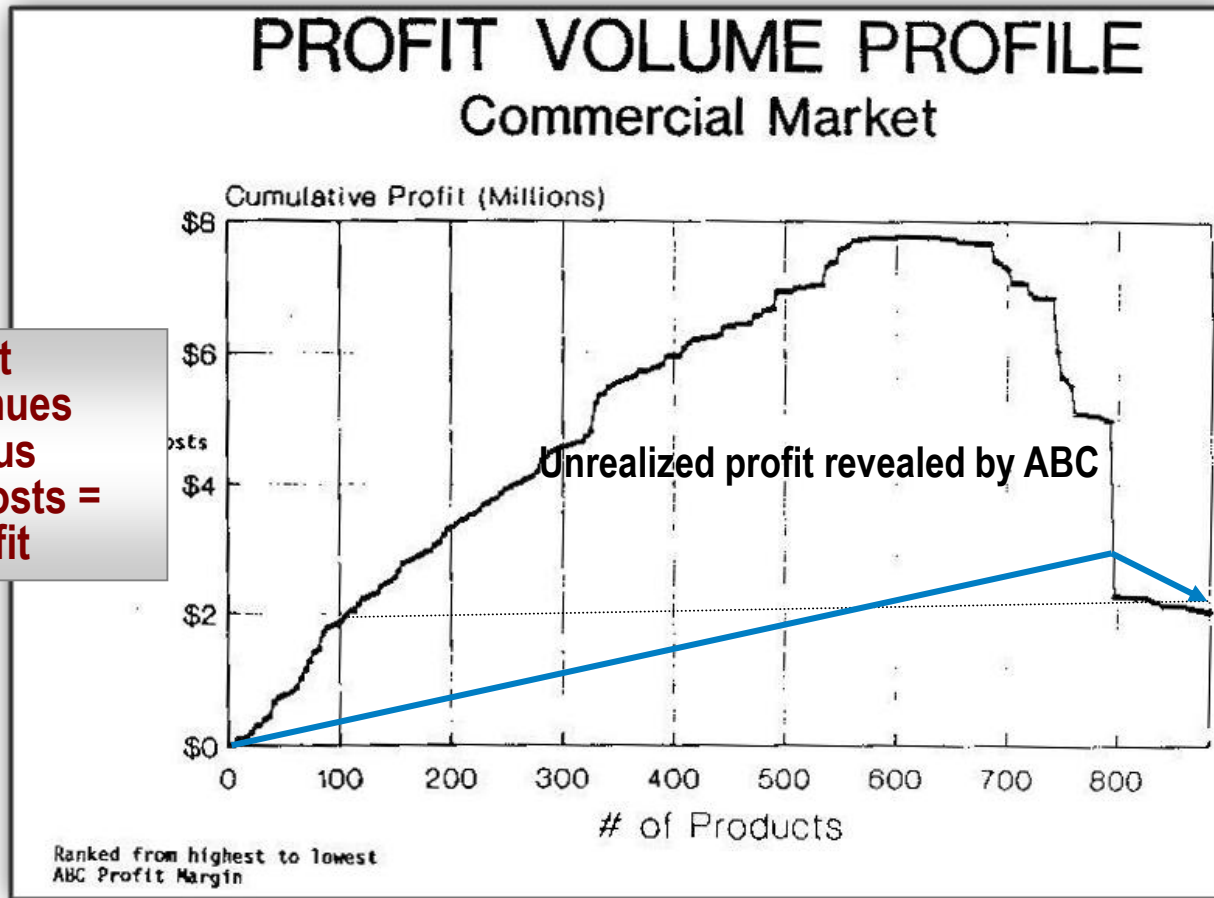


**Simple
ABC**



**Expanded
ABC**

More important than a better costing method are its results.



**Net
Revenues
Minus
ABC costs =
profit**

$$\begin{array}{r} \$ 30 \text{ sales} \\ - 28 \text{ expenses} \\ \hline = \$ 2 \text{ profit} \end{array}$$

← \$ 2 profit

What has Caused Interest in ABPM?

5) Strategic – The shift from being product-centric to customer centric.

Value of Company = f(Value from Customers)

The only value a company will ever create is the value that comes from its customers – the current ones and the new ones acquired in the future.

To remain competitive, one must determine how to keep customers longer, grow them into bigger customers, make them more profitable , serve them more efficiently, and acquire relatively more profitable customers.

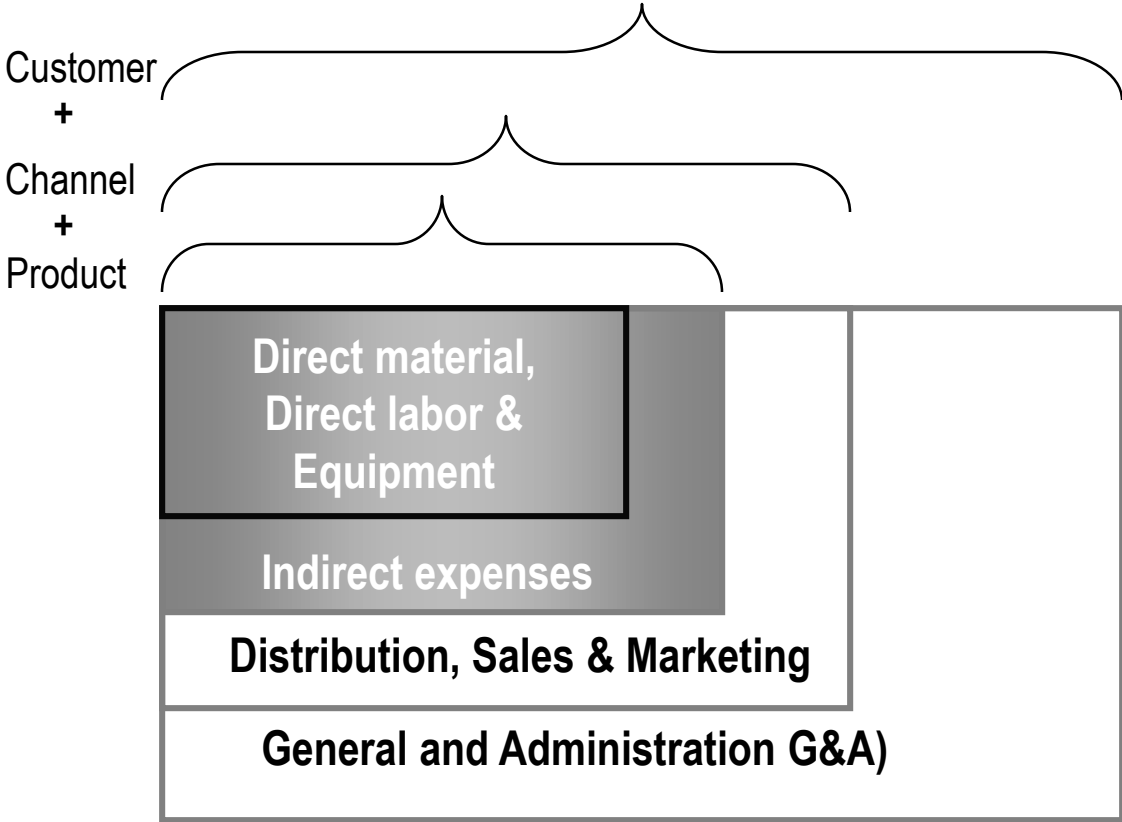
So what about the Other Below-the-line “Calculated” Costs?

Products and standard service-lines are not the only thing for which accountants should compute costs.

What about costs that have nothing to do with making products and delivering standard service-lines?

The problem with traditional accounting's product gross profit margin reporting is you don't see the bottom half of the picture.

Costs from Sales & Marketing are not Products





Angel Customers

&

Demon Customers



**Discover Which Is Which and
TURBO-CHARGE YOUR STOCK**

Larry Selden,

*Professor Emeritus of Finance and Economics at
Columbia University Graduate School of Business*

Geoffrey Colvin,

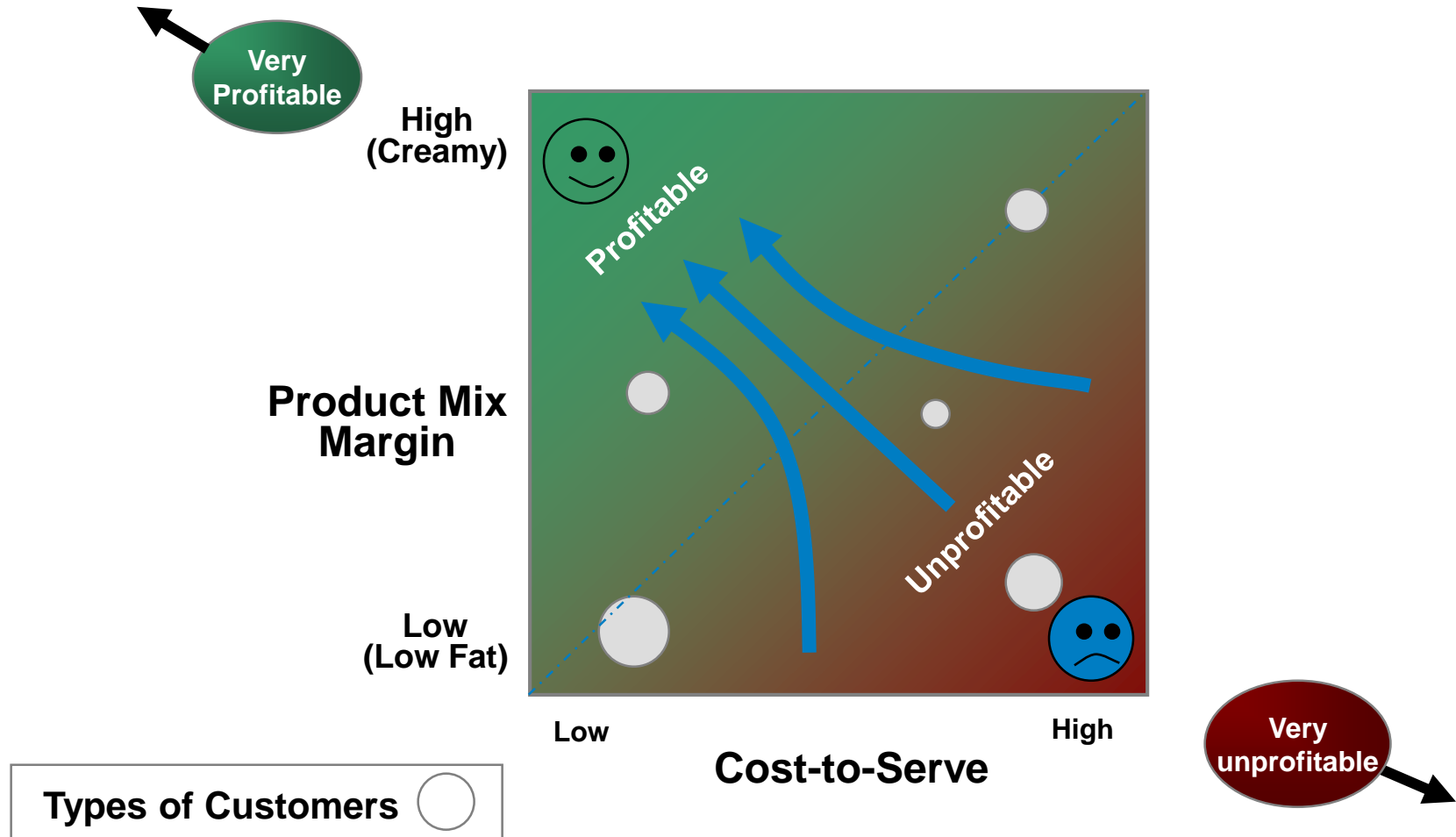
Senior Editor at large, Fortune Magazine

ABC Customer Profit & Loss Statement

CUSTOMER: XYZ CORPORATION (CUSTOMER #1270)			
Sales	\$\$\$	Margin \$ (Sales - Σ Costs)	Margin % of Sales
Product-Related			
Supplier-Related costs (TCO)	\$ xxx	\$ xxx	98%
Direct Material	xxx	xxx	50%
Brand Sustaining	xxx	xxx	48%
Product Sustaining	xxx	xxx	46%
Unit, Batch*	xxx	xxx	30%
Distribution-Related			
Outbound Freight Type*	xxx	xxx	28%
Order Type*	xxx	xxx	26%
Channel Type*	xxx	xxx	24%
Customer-Related			
Customer-Sustaining	xxx	xxx	22%
Unit-Batch*	xxx	xxx	10%
Business Sustaining	xxx	xxx	8%
Operating Profit		xxx	8%

* Activity Cost Driver Assignments use measurable quantity volume of Activity Output
(Other Activity Assignments traced based on informed (subjective) %s)

Migrating Customers to Higher Profitability



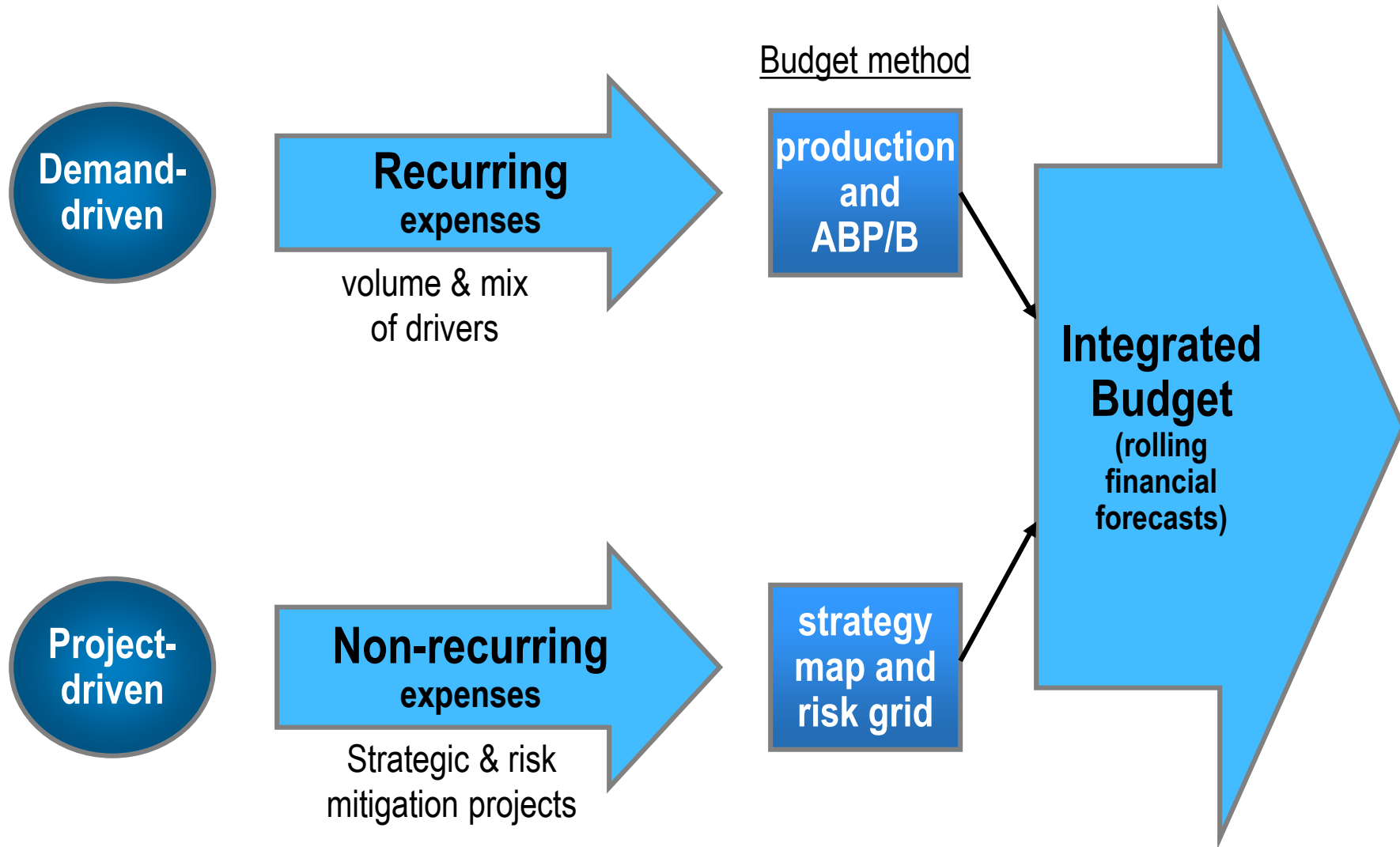
What has Caused Interest in EPM?

6) Contentious Budgeting – The budget is typically a fiscal exercise by the accountants that is:

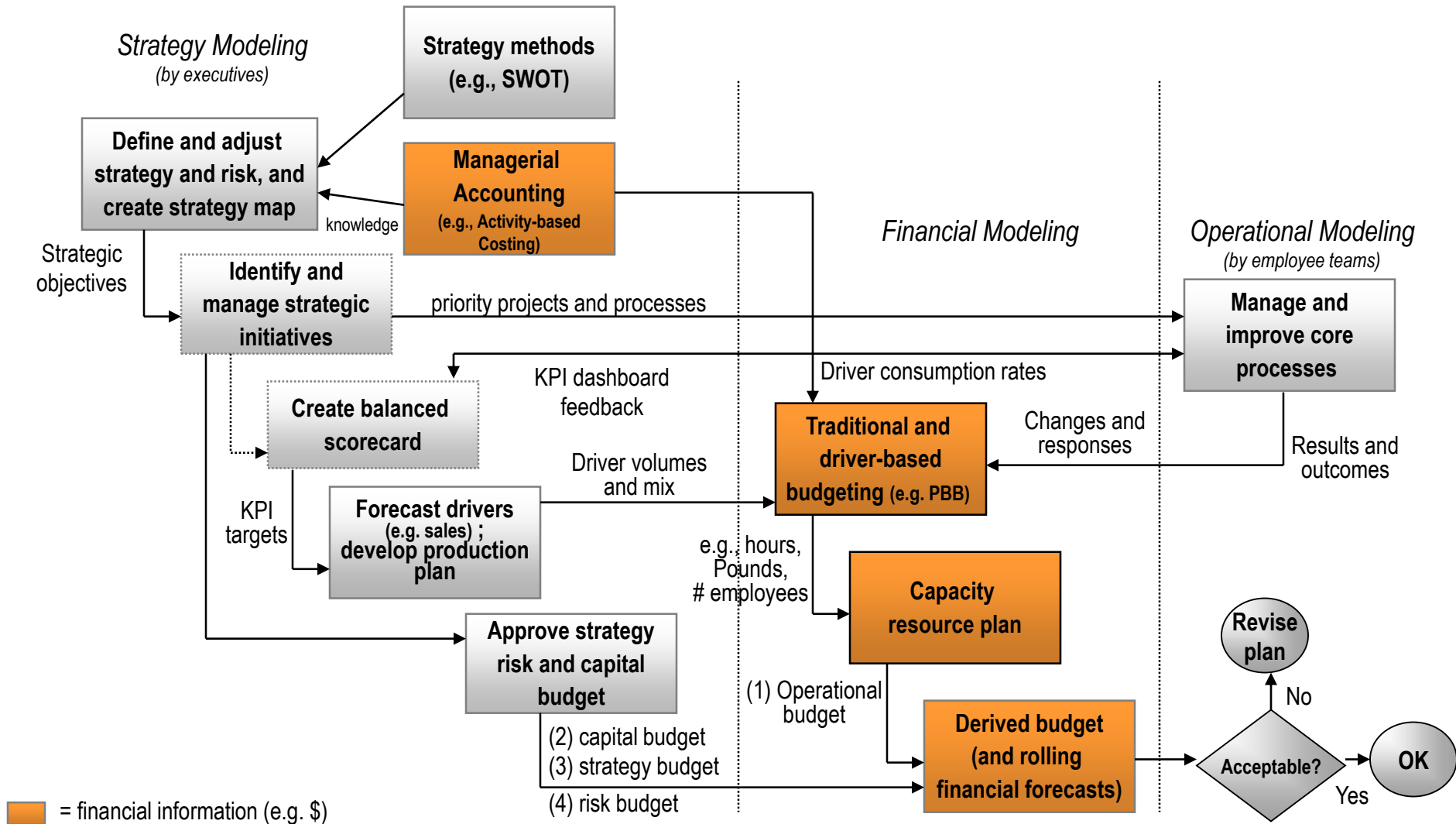
(1) disconnected from the executive team's strategy, and

(2) not based on future driver volumes.

Match the Budget Method to its Category



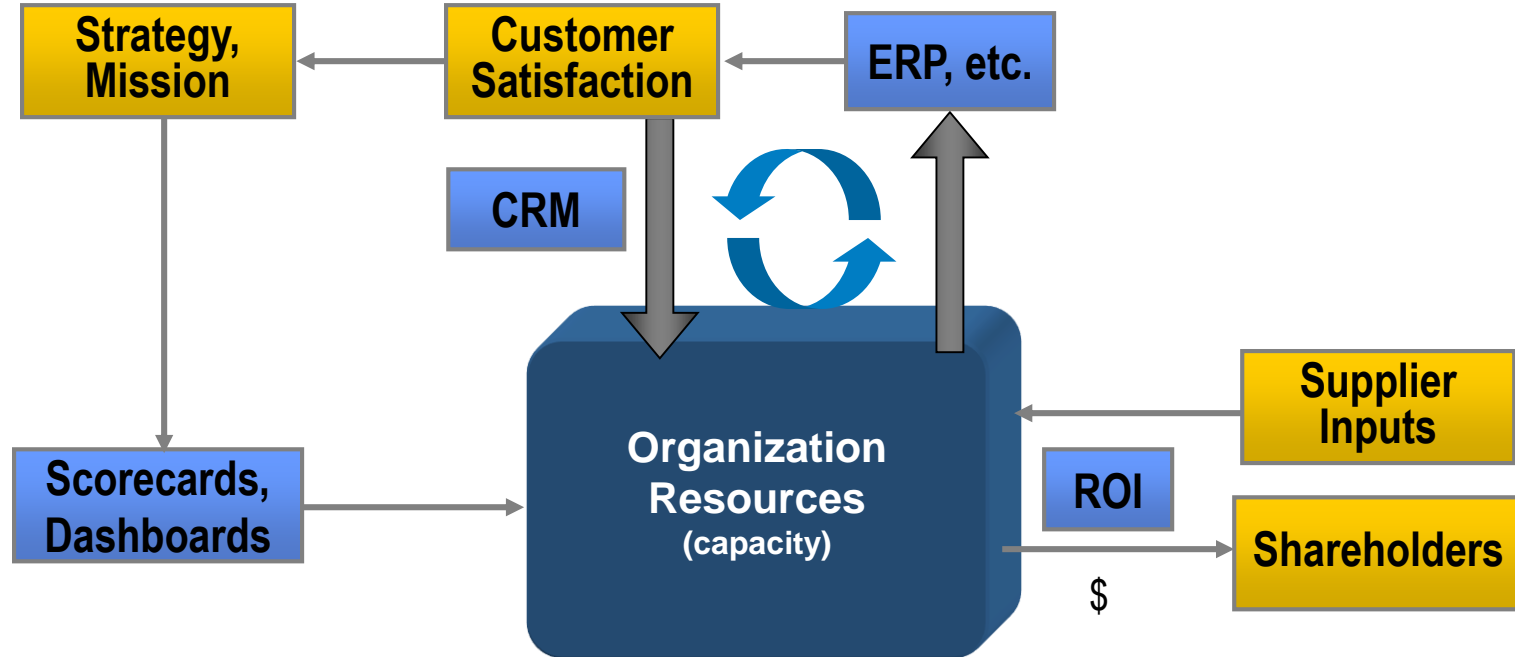
Linking Strategy and Risk to the Budget



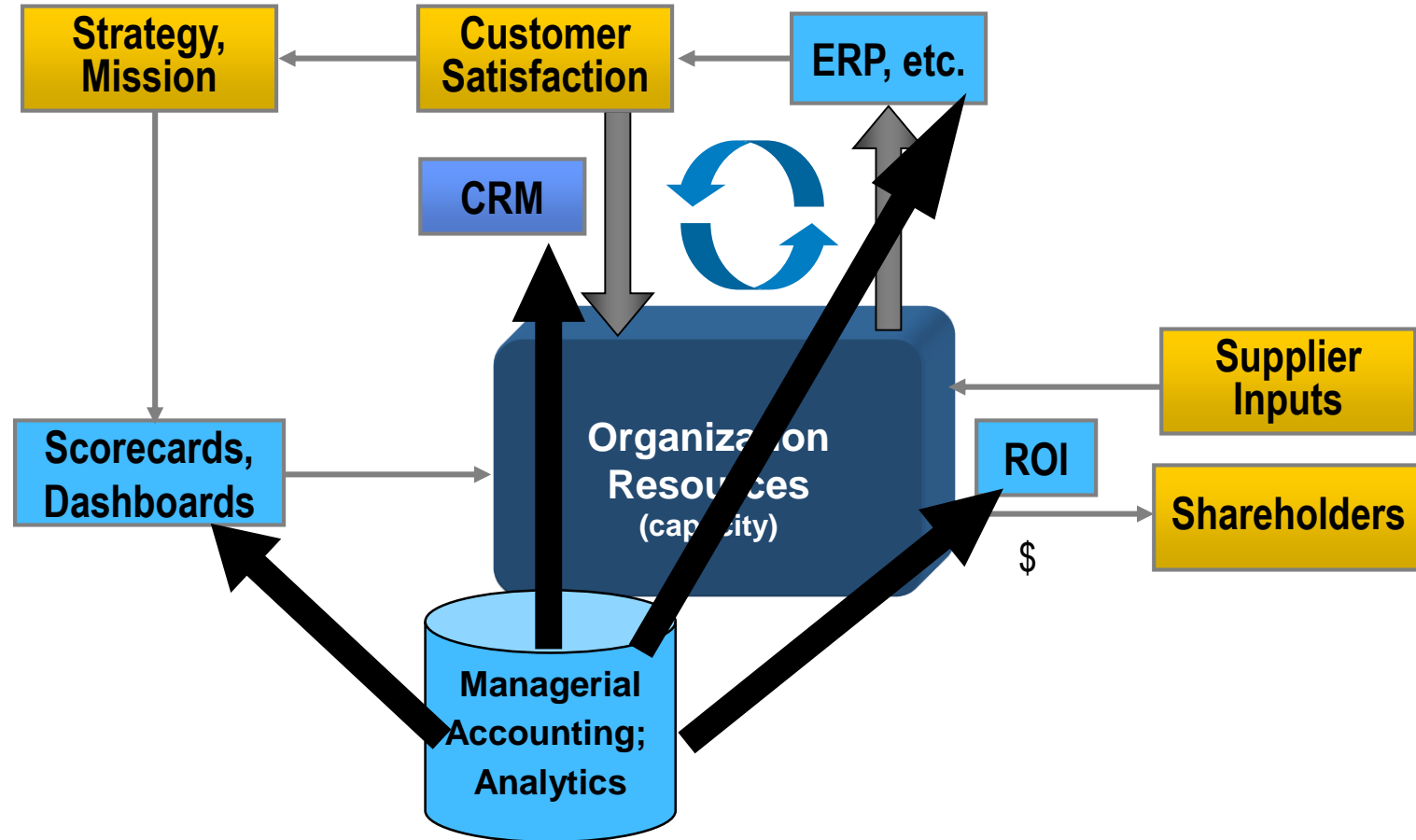
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How Does It All Fit Together?

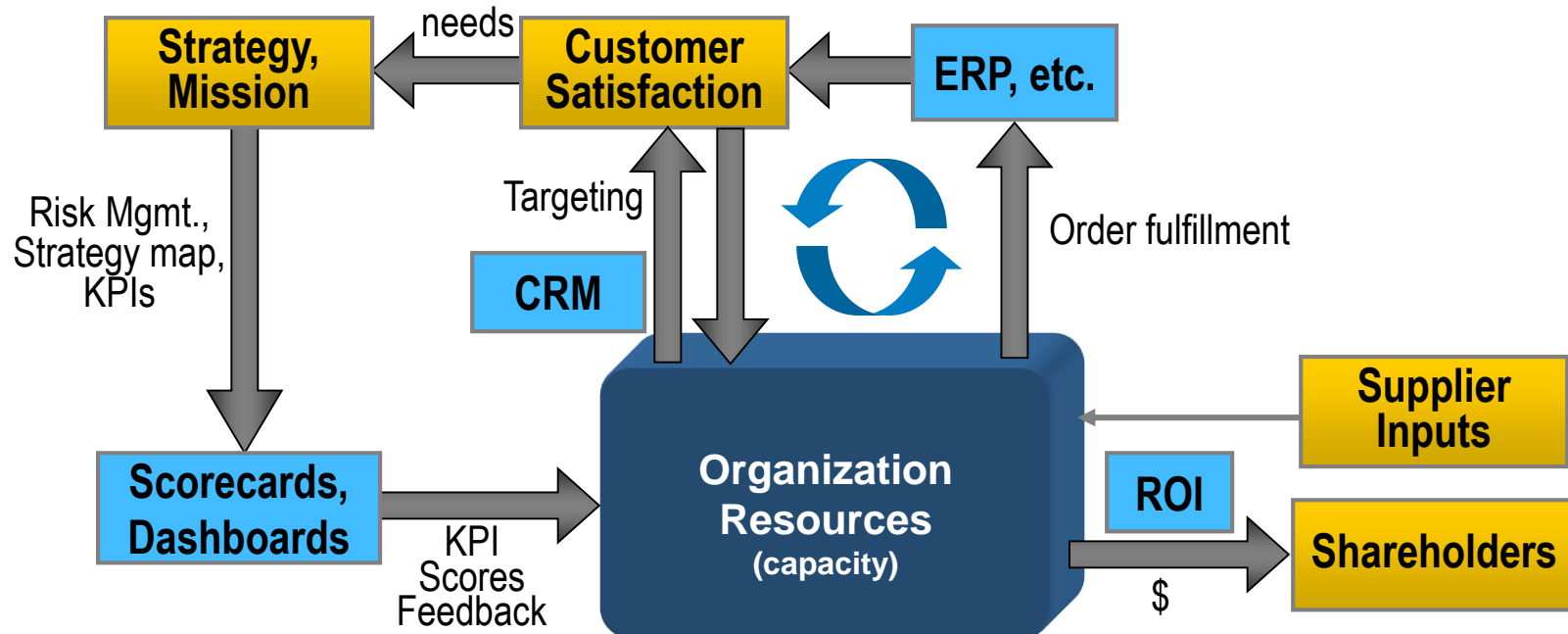


In Summary ... first, we energize *with good managerial accounting.*



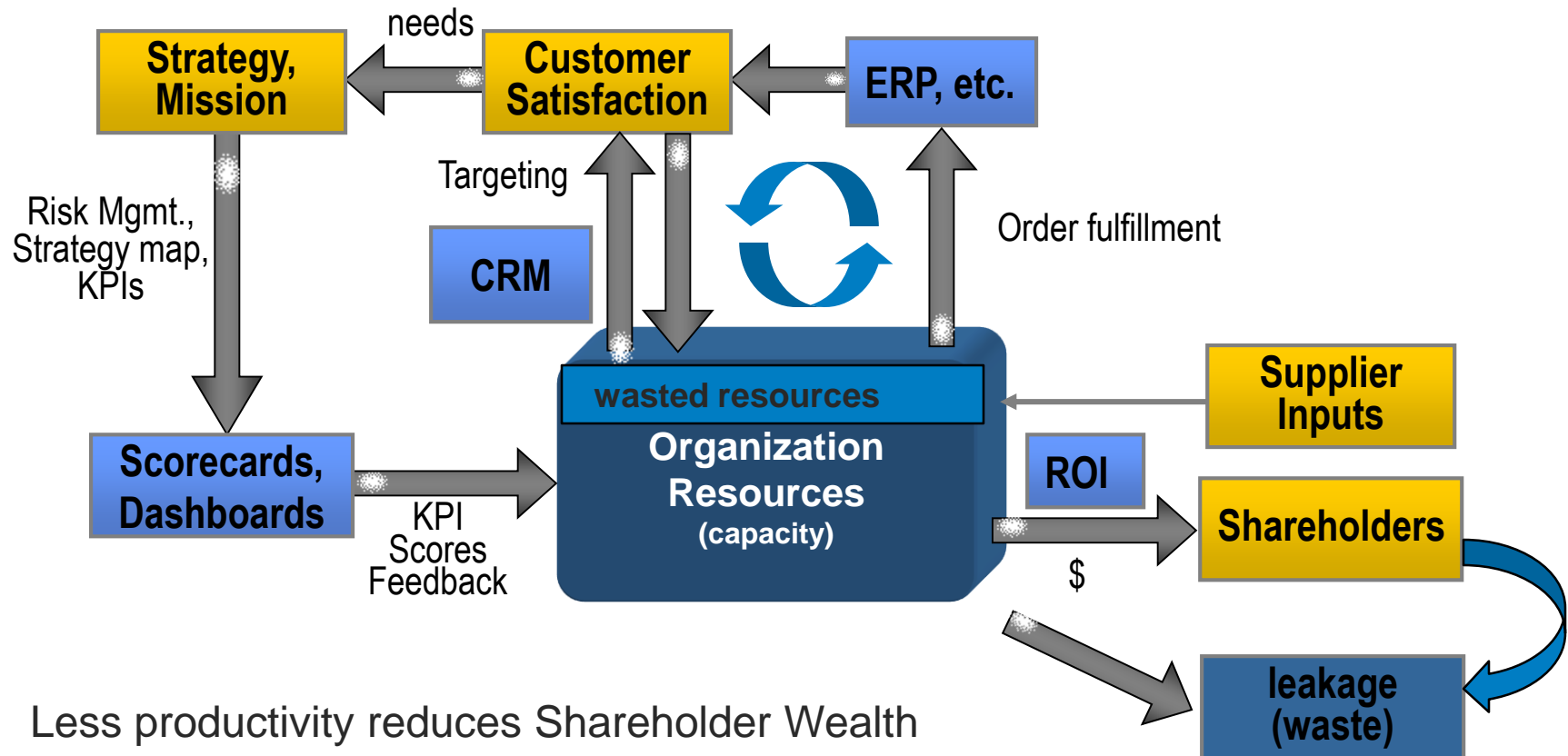
EPM is Circulatory and Simultaneous

Shareholder Wealth Creation is not a goal. It is a result!



EPM is Circulatory and Simultaneous

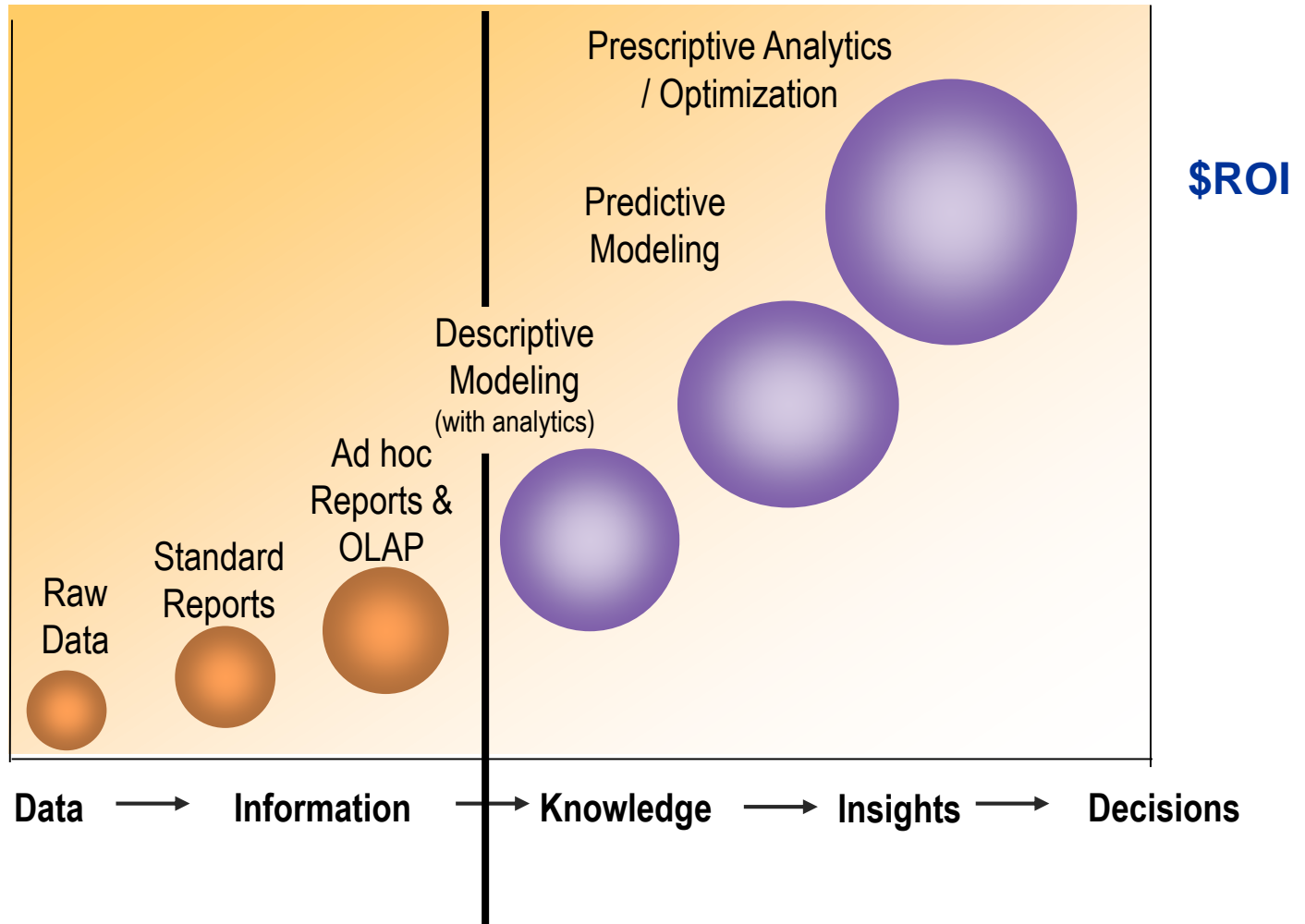
Shareholder Wealth Creation is not a goal. It is a result!



Less productivity reduces Shareholder Wealth

The Intelligence Hierarchy

Power of Information



Why is the adoption rate so slow? What are the barrier categories?

- (1) Technical barriers include IT related issues.**
- (2) Perception barriers are excess complexity and affordability.**
- (3) Organizational behavior barriers involve resistance to change, culture, and leadership.**

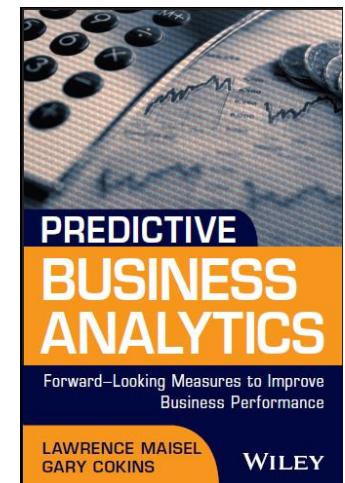
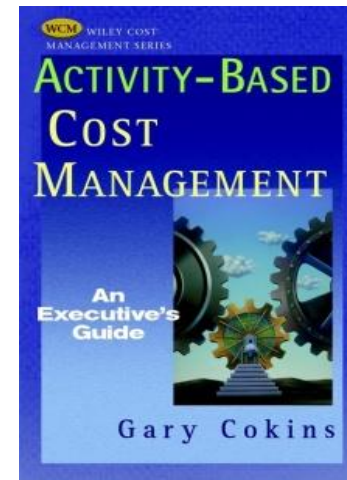
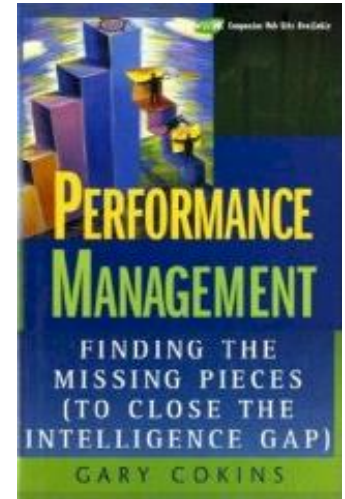
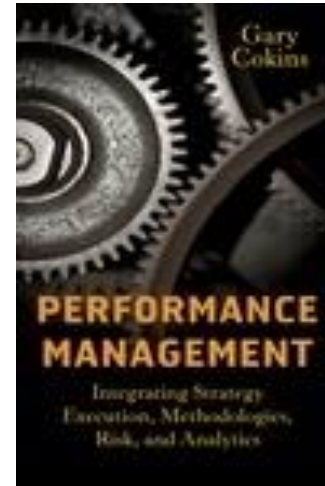
The Complete Vision of Performance Management



Make the RPM of the EPM and BA gears spin ...
... better, faster, cheaper ... safer and smarter

From Theory to Practice

Your success depends on how well and how fast the right information and intelligence gets to the right people.



Getting Started Actions and Resources

Action steps

- **Get educated. Get buy-in.**
- **Rapid prototyping. Start small; think big.**
- **Improve incentives. (Motivational theory)**

Resources:

<http://www.epmchannel.com/2013/04/09/exceptional-epm-cpm-systems-are-an-exception/>

<http://www.blog.corpeum.com/strategyexperts/gary-cockins/gary-cokins-strategy-essential>

A suggestion: Have your management team read either or both of these educational pieces. Then schedule a meeting for discussion. Have each manager answer, “What did I learn? What issues and concerns do I have about EPM?” This will stimulate needed conversations.

Thank You

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