Advisory Services

Corporate Performance Management:

Achieving value by effectively anticipating and managing change

PricewaterhouseCoopers

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The heart of the matter

How does Corporate Performance Management (CPM) give you the right mix of standardization and flexibility to deliver predictable results and sustainable execution of your strategy?

Management systems today do a good job of budgeting, financial and management reporting, and rudimentary business intelligence analysis, but these information and process islands are usually disconnected from real-world decisions and corporate actions. Think about who owns these initiatives in your organization: finance, IT, the lines-of-business, operations and other corporate functions—there is probably more duplication of effort (and systems) than you know.

The promise of CPM is to bring together these processes and technologies into an integrated system and unified way of managing your business that is more powerful than its individual parts. A true "management system" integrates all areas of the business from a common strategy and vision, through a common business language, and establishes a culture of accountability and results.

In the 11th annual PwC CEO Survey,[1] three quarters of CEOs believe that one of their main sources of competitive advantage is the ability to adapt to change.

To add material value in today's rapidly changing, increasingly complex, and global business environment, your management system must be able to quickly adapt to all kinds of change: organizational, market, competitive, and regulatory change. It must make fact-based decision-making a core competency, it must provide an environment for continuous, collaborative "what if" modeling and analysis that interconnects uncertainty, risk, and volatility, and it must give visibility and insight into the true drivers of value in the business. And on top of all that, to drive the right behavior, it must directly connect people performance and results to rewards and compensation.

In short, your management system must be agile. CPM is a valuable place to start.

At its heart, CPM integrates the myriad of answers to complex questions including: "What do we want to happen in the business, and what is the right way to make it happen?" CPM helps align the answers with strategy using the right balance of standardization and flexibility to drive sustainable performance.

[1] *11th Annual Global CEO Survey: Competing & Collaborating—what is success in a connected world?**, PricewaterhouseCoopers LLP, 2008

How to build an agile foundation for change

Agility is your new core competency. Being able to anticipate change and quickly react to it should be built-in to your company management operating system.

This will require a true balance between somewhat contradictory goals: flexibility in your business model, organization structures, and people, and standardization of systems, processes and information.

This thought leadership paper by PwC highlights real-world examples of how companies are embracing the core competency of agility that empowers them to capitalize on opportunities faster than–and more efficiently than–more conventionally structured organizations.

It outlines challenges faced by companies like yours that holds them back from being an agile enterprise, including the recent emphasis on increasing efficiencyand driving out cost with a technology-only focus that does not address the impact to people and process. Leading practice organizations are developing an integrated approach to CPM that drives sustainable results by aligning business operations to corporate strategy.

The paper recommends the development of your business agility blueprint that includes a variety of CPM components such as scenario planning and deeper visibility into the business.

You can download the whitepaper at www.pwc.com/us/advisory

An in-depth discussion

Client challenges

Executing your strategy is the challenge of every executive and manager in every organization; in fact, it's everyone's job. There are an infinite number of ways to execute strategy ranging from "the edge of chaos" to complete bureaucracy, and from a loosely-coupled network of business functions to full enterprise "command and control." The challenge is managing the business in-line with your business model today, yet being able to adapt to new models tomorrow.

Executing in a disciplined, rigorous and repeatable way, while balancing the sometimes-competing imperatives of growth, innovation, and risk with transparency, compliance and accountability rapidly narrows the number of ways you can effectively adapt to change and execute your strategy in a repeatable, reliable way.

It doesn't help that there are so many functional disconnects (does marketing talk to production?), information silos (which headcount report is right?), and systems barriers (which of my six reporting systems should I use for this data?) that keep you from plain old operational efficiency, let alone business agility.

Add to that the challenge of day-to-day performance pressures from:

- Globalization and demographic change
- Technology advancements
- Environmental and sustainability requirements
- Disintermediation, social networks, and customer intelligence
- Commoditization and competition

...and you have an even bigger need for a common way of managing, a common business language, and a common platform for change that supports you in delivering sustainable performance.

Why it matters

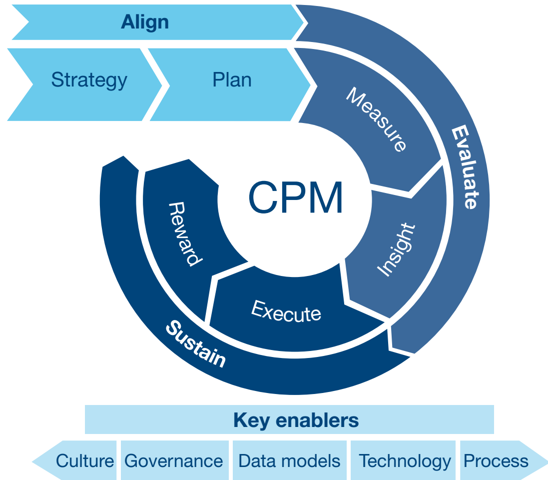
What does this means for your business? Managing your business depends on the processes and technology being aligned to deliver the right mix of standardization and flexibility so you can:

- Believe in the numbers and report with confidence
- Set accurate expectations and anticipate results
- Deliver the right visibility to the right people at the right time, and hold them accountable for results
- Spend less time on non-value-add activities, so you can focus on what matters
- Execute with confidence and stand up to scrutiny

CPM is the glue that brings it all together

CPM enables fact-based decisions and supports increased speed of business. It helps you address resource scarcity, transparency requirements, and compliance and accountability pressures.

To be successful, your CPM vision has to be holistic and connected in many ways.



You should approach CPM with an enterprise-wide view, including finance, operations, HR, IT, sales and marketing, both functionally and at the operating level, touching all levels of the organization:

- It connects strategy, through planning, to sustained execution
- It connects people, process, technology, and data
- It's built on connected process components including budgeting, planning & forecasting, financial consolidation, reporting & analysis, business intelligence, modeling, scorecarding, and master data management
- It's connected with adjacencies such as GRC (governance, risk & compliance), including Sarbanes-Oxley compliance, close and consolidation, revenue growth, M & A services, cost management, operations, and many other business initiatives

Finding value at the intersection of governance, risk & compliance & CPM

Many companies have made significant investments in controls in support of governance, risk, and compliance (GRC) initiatives. These days, agile organizations have stopped viewing GRC as a necessary evil required to check off their corporate compliance checklist, and have started leveraging GRC to improve operations, using technology to improve management visibility and accountability.

The intersection of GRC and CPM enables management to leverage its GRC investment to streamline, automate, and improve internal controls around its forecasting, planning, and budgeting processes. Leading practice companies are also taking a risk-based approach to performance management—integrating a more comprehensive view of how risk plays out across the business into strategic planning, operations, and execution-business leaders can use risk to create value, rather than just avoid cost.

- It supports the management processes of aligning strategy to plans and resource allocations, evaluating performance and understanding what actions to take, and sustaining execution including rewarding stakeholders appropriately.

How technology leads to a viable CPM strategy

In order to execute as an agile organization, key agility requirements must be linked and operated using a CPM management system, enabled by technology and firmly seated on a strong infrastructure.

As discussed in our paper "How to build an agile foundation for change," (see sidebar on page 3), there are five primary capabilities that exemplify the agile enterprise.

CPM directly enables the five capabilities of the agile enterprise:

1. Anticipating the future and planning for business opportunities

One of the hardest things to do in complex business environments these days is to implement a common business language across departments, functions, entities, partners and layers of the organization. By centrally managing the definitions, relationships, and rules that govern and transform data into information, organizations will be free to analyze the "what happened" and "why" questions than they do collecting, consolidating, and validating the data and transformations.

CPM deals with by helping to manage the attributes and relationships of data and by tracking where it comes from.

For example, "-58,127" is just a number, but there is organizational *meaning* and context to that number that needs to be tracked and understood. -58,127 happens to be the variance to actual U.S. dollar sales of 10 oz Diet Cola in January 2008 from Toronto by ABC Co., booked in our General Ledger and compared to our Sales Forecasting System. So the meaning and context of the data tells me the G/L account, the formula (actual minus the 'commit' number of the current forecast), the booked currency (converted from the local currency), the product (and inherently which product category and package size that rolls-up to), the total for the month (a sum of daily sales), the year (current, not prior), the location (with a territory and country roll-up), and the channel it was sold through (a retail partner). It also tells me what source system it came from (the G/L and the Sales system, not the CRM system).

Until you simplify and integrate these definitions, hierarchies, and rules you will spend most of your time debating the accuracy and meaning of the number than you will debating the actions you want to take as a result of the number. And think about how much more complex this will get with the variety of ways we will have to report results—US GAAP, IFRS, Segment reporting, Management reporting, and so on.

It's critical that your CPM enabling technology be flexible enough to support this complexity.

CPM and IFRS Conversion Needs

International Financial Reporting Standards (IFRS), the principles-based accounting and financial reporting framework used by most of the world today, has become a topic of growing interest to U.S. companies, regulators, investors, and auditors. Recent SEC announcements have only reinforced speculation that a move to IFRS in the United States is inevitable. Along with the proposed roadmap announced in late August 2008, the SEC also proposed a rule that would provide for voluntary early adoption for a limited number of companies.

An effective CPM program will help companies anticipate and mange the change that will arise from new accounting policies. At a minimum, the CPM system will help companies model the impact of new policies on past and future data. Accurately modeling the impact of this change will help companies manage the expectations of the investment community, manage the planning processes and consider the impact on performance management.

Several components of your CPM system can further enhance your IFRS implementation, including statutory consolidation as well as cost reduction through process efficiencies that will arise from a single global standard. Companies are evaluating these components to determine the impact to their CPM roadmap today.

For more information see *10Minutes on IFRS,* www.pwc.com/USIFRS

Oracle Hyperion Data Relationship Management helps manage the master data and Oracle's common calculation manager will help standardize the business rules that transform your data into useful information.

Once you have the common business language and agreement, you can address business structures and planning scenarios.

Here are a few examples:

"If we have a wide variance in sales in one market, how does that stack-up for same-product variance in other markets?" We can now do apples-to-apples comparisons (normalized for currency) and look for trends and patterns that may alert us to a root-cause problem.

Perhaps it's how we serve and organize the channel. "What if we re-org our channel?" or "What if we invest more in channel efficiency and training?"

Or "What if we ramp up point-of-sale marketing? What will be the anticipated impact on sales?"

And let's not forget our variance: "What is the norm for forecast accuracy, and what accounts for the surprise in Toronto?" Perhaps we want to keep closer tabs on forecast accuracy right down to the account manager and even G/L account level.

The ability to "drill back" from Oracle Hyperion Planning and Oracle Hyperion Financial Management into Oracle E-Business Suite Financials is one of the first fruits of integrating ERP with EPM.

A medical device company unites its financial consolidation and reporting across geographies and departments

A global medical device company struggled with various inefficiencies in their legacy consolidation tool including lack of data integration, poor visibility to subsidiary and international data, inter-company eliminations, and lack of dimensionality. In addition, the organization also determined that they needed to simplify and re-design their global Chart of Accounts (COA) in order to capture the correct geography, product, and department level information. The CPM methodology and approach that was utilized by PwC allowed the company to streamline and integrate their consolidation and reporting business processes and select an automated tool that was the best fit for their company. The Oracle Hyperion Financial Data Quality Management (FDM) product automates the data submission process and provides visibility into subsidiary and international data. And the combination of Oracle Hyperion Financial Management (HFM) and the new global COA allows the organization to automate the inter-company elimination process and now provides the correct level of data to support the reporting needs for geography, product, and departments across the company.

2. Simplifying and integrating business activities so they can be analyzed for cost and value

   How profitable are your customers? How about your products and services? And what about each of your locations or entities? These are usually contentious questions as they bring up much of the pain of siloed business activities and information systems.

   To make this work, you need to integrate business activities as well as the processes and information used to manage them.

   Historically, management systems did not give an accurate view into profitability. Now, technology such as the Oracle Hyperion Profitability and Cost Management module (part of the Oracle EPM System) help enable this, including functionality such as:

   - Standard costing
   - Allocations
   - Traceability
   - Support for product, location, and customer profitability

   Sustainable cost management provides you with the ability to manage and align costs with your business strategies on a continuous basis so that you are not removing costs that contribute to profitability.

Giving visibility to demand planning, with Oracle Strategic Operational Planning for example, lets you focus your production, selling, and marketing efforts on what your customers want to buy. It also lets you invest appropriately in supporting and maintaining your most profitable and in-demand products and services.

It's much easier to gather the facts and analyze what is happening in the business when there is a common foundation across the business that supports profitability analysis.

3. Focusing on innovation within the existing boundaries of your businesses

There are many kinds of innovation in your business, including:

- Product innovation
- Process innovation
- Business model innovation
- Packaging/bundling innovation
- Pricing innovation

Having visibility into each of these areas lets you focus on their effectiveness and potential materiality. The potential is revealed as you model a variety of scenarios, for example additional investment in R&D, the acquisition of a complementary or adjacent technology or service, and even a correlation to past new product introduction performance.

A global pharmaceutical company improves and accelerates financial closing and reporting

A global pharmaceutical company had multiple ERP platforms with over 75 different ledgers which attributed to a complex and time consuming consolidation process. Moreover, the monthly consolidation process was not automated and left little time for analysis. Management asked PwC to assess ways to streamline the closing and consolidation processes, including automated solutions. Following the successful implementation of the new consolidation and reporting solution, management now has more detailed and consistent data that enables improved financial analysis. Oracle Hyperion Financial Management (HFM) consolidation and reporting tool was selected after considering the new closing model. In addition, the company's reporting capabilities have been enhanced on a global basis. Numerous manual controls have been automated, increasing efficiency and reducing closing cycle time by 40%.

Closing the loop between modeled/expected revenue (or efficiencies from new products or processes), and actual performance, helps you become a learning organization by capturing those drivers, constraints, and assumptions and understanding the cause and effect that investing in innovation can have on performance.

4. Integrating new business capabilities continuously, rapidly, and cost effectively

   The majority of M&A transactions fail to deliver the value promised to investors due to failed execution after closing. This begins with two unique corporate performance management environments that must be integrated into a new or improved model to address the strategic goals of the combined organization. Too often companies squeeze the acquiree financial results into the acquiror process and systems without considering the ultimate impact to the corporate performance. Lack of visibility to emerging risks and issues delays the response by the management team and increases the impact to the business. This delayed response often results in changes of priorities that ultimately impact the ability of the company to achieve the initial goals of the business combination.

   An effective integration program will include building a CPM environment that prioritizes the value promised to investors and enables the collection analysis and reporting of necessary data so that the management team can deliver. An agile company will leverage the existing data in both organizations through a CPM system that will immediately highlight vulnerabilities and risks occurring during the critical integration period immediately following deal close.

5. Managing change through people

   Driving the right behavior in a company means not only connecting pay for performance, but also understanding what, exactly, is performance in the first place. Performance can mean different things for different employees, depending on where they live in the organization. While the CEO cares about EPS or Economic Value Add (EVA), the accounts receivable associate cares about days sales outstanding (DSO). If you can show a causal relationship between DSO and EPS, then the accounts receivable associate is typically more motivated knowing that he or she can help deliver what's important to the business.

   Cause and effect visibility through performance dashboards, and performance scorecards, helps drive accountability by showing all levels and functions of the business how well they are doing against plan, and how their contribution supports (or hinders) the business.

What this means for your business

Before you decide which application or applications are right for you, consider these elements:

Strategic

- Make sure you have a long-term CPM vision into which your current and short-term portfolio of finance, IT, and operational initiatives fit
- Decide where CPM "lives" in your organization: Finance, IT, Operations or a cross-functional center of excellence
- Determine and document the business case for CPM, including:
  - Revenue growth
  - Cost management
  - Systems rationalization
  - Cash cycle velocity
  - Fixed-asset utilization
  - Visibility and accountability

Operational

- Connect CPM to your management system, and look at CPM processes to create competitive advantage
  - Connect financial and operational models and scenarios into your planning processes
  - Provide financial, operational, and predictive analytics to your business analysts and managers
- Integrate your IT roadmap with CPM
- Inventory your CPM processes and align them with your roadmap

Tactical

- Leverage your technology investments
  - Rationalize systems and standardize where appropriate
  - Upgrade to functionality that gives you business benefit
- Leverage your data assets
  - Expose data quality issues
  - Implement the CPM umbrella on-top of your transactional systems and data warehouses
- Implement a robust data governance policy and methodology

An integrated CPM system, the backbone of your management operating system, is the foundation for building an agile enterprise. It delivers a balance of standardization (common definitions and calculations, common processes, and a common management information interface) and flexibility (Multi-GAAP and management reporting, scenario planning and analysis, alternate hierarchies including entity and product roll-ups, workforce planning, etc.).

Oracle's EPM System helps to enable an integrated CPM system. It supports those management processes that let you debate and decide what you want to do and how you will do it, and connect those models and plans with gathering and understanding what actually happened and why it happened. You become a learning organization that can anticipate change, plan with impact, and execute with confidence.

For more information please visit www.pwc.com/us/oracle

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