

The Power of Performance Management

The benefits of data analysis are sharply strengthened when teams work together.



Kids Headquarters' explosive growth over the past decade from proprietary apparel and licensed brands like Disney and Nickelodeon has brought a challenge many companies face today: The \$700-million clothing firm couldn't make sense of the huge amount of sales and financial data that

poured in from points as close as Boston and Indiana and as far as Bangkok and Indonesia.

Kevin Downs, Kids Headquarters' chief technology officer, found the company was often generating eight production reports from eight sources and coming up with eight different answers. Sales

assistants would spend days crunching numbers and putting the data into Excel spreadsheets for sales executives. But the data wasn't reentered into the system and often didn't match the inventory in the warehouse. As a result, the firm's business was driven by gross sales because

there wasn't enough current information to look at the more important figure of gross margins until long after a selling period.

"We were really being hurt by charge-backs," Downs says. "The information wasn't in a readily available form until it was dumped into the ERP (enterprise resource planning) system and a report came out at the end of the month, which was almost like managing after the accident."

But today, that's not the case. The CEO of Kids Headquarters can turn on his computer and colored bars and dials will give him a snapshot of the business at any given point in time. The system

in IT: enterprise performance management (EPM).

At first glance, EPM might seem like just another acronym to describe business intelligence (BI)—the processes and technologies used to turn information into insight and action. Indeed, that is what Wayne Eckerson, director of research at The Data Warehousing Institute, used to believe. What he has come to realize, however, is that BI is actually the enabling technology,

measures that will drive strategic performance without incentivizing some employees to work at cross-purposes with company goals? How can data be pulled together from many groups with different processes and business systems to deliver the holy grail of "a single version of the truth"?

And, most importantly, as Eckerson points out, how can companies initiate the cultural transformation required to get workers at every level to use the technology?



Business Process Management

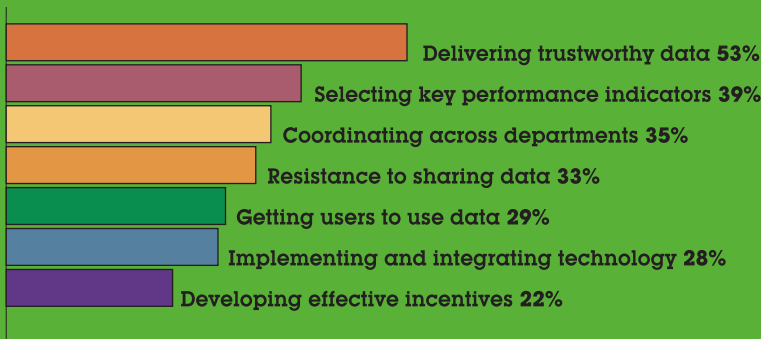
The first step in turbo-charging an enterprise is to make sure business processes are efficient. Business process management is all about removing variability. It combines software, workflow and business rules to improve specific business processes.

As a result, cross-application business processes "may be slow, opaque, inefficient and error prone, yielding high operating costs and decreased customer satisfaction," says Nimish Mehta, group vice president, universal application network at Siebel Systems. Typical integration approaches often result in point solutions that do not fully account for the steps users must take to complete a business process. "Integration remains a CIO's top priority," Mehta says.

Many people, experts say, see BPM as a workflow tool that automates tasks. While that is true, experts say it overlooks the bigger effect on the benchmarking process. Take Dell Computer, which may be the poster child for BPM. When a delivery person finds out a product order can't be delivered for some reason, that information immediately goes back to Dell, which determines what error in the process occurred. Was the

What Slows Down Your Intelligence?

Execs' top data problems



Source: A survey by The Data Warehousing Institute of 360 executives

instantaneously alerts him of any charge-back that doesn't fall within rigorous criteria. "Now he can nip the problem in the bud rather than wait until the end of the month and find out our markup has been affected by one-and-a-half percent by the charge-back," Downs says.

The resulting cost savings and better efficiencies at Kids Headquarters can be traced to what Downs calls "one of the most misunderstood technologies"

whereas EPM is a business process that leverages BI. These technologies, combined with business process management (BPM), the third leg of EPM, are helping companies like Kids Headquarters optimize performance and turbo-charge profitability.

Higher level BPM, BI and EPM bring up many challenges. Should companies start these initiatives at the enterprise, division or department level? What are the relevant and effective

ship-to location incorrect? Was the shipment mistakenly brought to the front door rather than the loading dock?

"Because Dell has a process mentality, they coordinate all the activities among the customer, the warehousing, the logistic provider and themselves," says

Jonathan Hornby, director of performance management, worldwide strategy group at SAS, points out that "just because you go with the best process, it doesn't mean that that process is in strategic benefit of the company." At this point, business

ting your data in order," says Eckerson of The Data Warehousing Institute. "Unless you do that, you are measuring vapor."

EPM is, fundamentally, the culmination of a successful BI strategy—when intelligence is strategically deployed across the organization.

"BI has become a mission-critical capability for organizations to derive maximum value in the context of their customer-facing initiatives and beyond," says Mike Lawrie, chief executive officer of Siebel Systems.

A Siebel customer agreed. "A real benefit is that it reflects data in real time and requires almost no resources to view the information," says Darryl Carroll, senior director of process integration at Honeywell Aerospace. "Previously, management generally still had access to information they needed, but there was an army of folks burning the midnight oil collecting this information, analyzing trends and putting it into a form that was presentable to management. By the time we were

able to present the data, the data was stale."

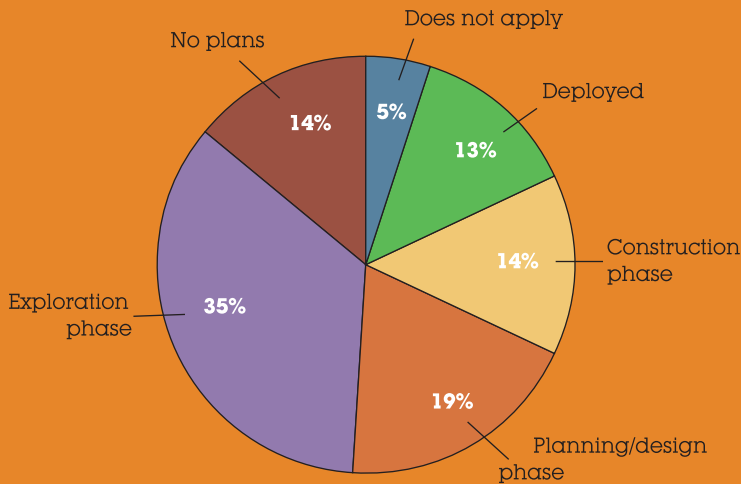
Delivering the right information to the right people at the right time requires a turbo-charged, enterprise-wide analytical platform.

"When the data is used for enterprise performance management, a lot more eyes are on

it," says Patrick Morrissey, worldwide marketing director for enterprise performance management at Business Objects. "A lot more people have a lot more to lose if the data is not correct." This requires a company to be more strategic about its data in everything from data integration to real-time feeds from the data warehouse.

Ultimately, BI for EPM raises that to a
continued on page 11

Where Are Companies With BPM?



Source: The Data Warehousing Institute

Eric Austvold, a research director for AMR Research. "Once the product is on the FedEx truck, they don't want it back because it erodes margins."

But BPM is clearly anything but simple. People often assume that improving a process inherently improves profitability, but that may not be the case. A typical process management routine is to reduce costs at all ends, but that might eliminate a loss leader that generates other business. The first step is to identify the key things that add value from the processes the company uses.

The biggest stumbling block to BPM is usually people issues. "People become leery when a machine makes decisions on their behalf," Austvold says. "They wonder at what point it is OK to let a machine think through all the options that a human used to."

process management can take all the information from the process to determine what value is delivered to the organization. That aligns strategy, cost, behavior and customer patterns.

Business Intelligence

Even with the right processes, workers throughout an enterprise cannot make smart decisions unless they have the right data. When Kids Headquarters' Downs implemented his EPM strategy with Cognos software, one of his first steps was spending five months cleaning his data.

"One of the hardest parts of this is get-





Are You Correctly Measuring The Wrong Thing?

In a survey by The Data Warehousing Institute, executives identified the key challenge to implementing enterprise performance management as delivering trustworthy data. The second biggest challenge was selecting key performance indicators (KPIs). In other words, while executives knew they had to measure something to improve performance, they weren't always sure what that something was.

KPIs are business drivers that predict future success. They are leading, not

lagging. Determining the right KPIs and finding out who owns them can be a Herculean task.

Most engineering firms, for instance, understand how to benchmark their general administrative costs against competitors. "The problem is knowing how to tie something like that into the organizational goals," says Rick Lowrey, executive vice president of Deltek Systems. "If the goal, for example, is to increase the win rate for bids, the general administration costs somehow tie into that. Many companies,

however, aren't always able to connect several different strategic goals with the KPIs of the business and have a clear view of it."

Finding the Right KPI

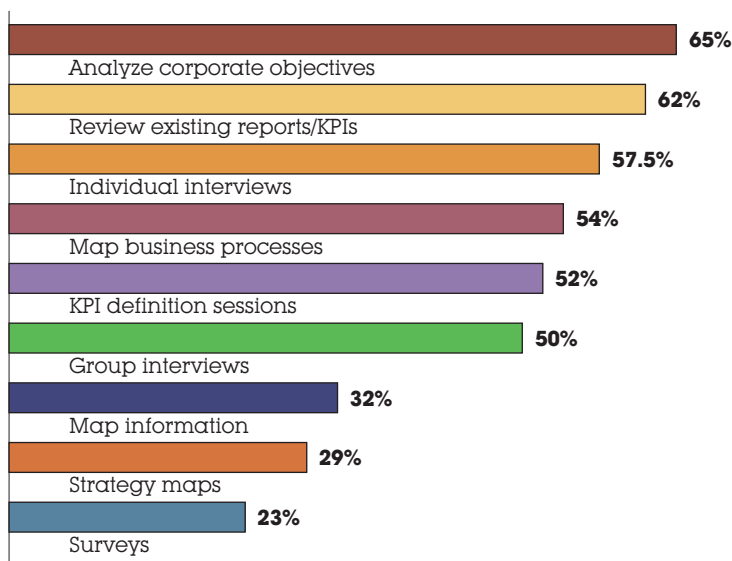
Wayne Eckerson, director of research at The Data Warehousing Institute, says a common problem occurs when companies approach KPIs from only a departmental or a functional level without mapping the relationships to a high enough level. The result can be sub-optimization—when the metrics of one department inadvertently compromise the ability of another department to perform well.

Take this example: The primary goal might be to avoid stock-outs of hot selling items in retail outlets, but the warehousing and distribution units of the same company might be given incentives to keep inventories low to reduce costs. Both goals are reasonable. But if the KPIs are not coordinated between marketing and warehousing, it can hurt the more important goal.

Many companies have trouble sorting out the all performance indicators (APIs) from the KPIs because they lack a well-defined set of owners and processes that allow them to differentiate the business drivers and strategic measures from secondary influence measures, says Patrick Morrissey, worldwide marketing director for enterprise performance management at Business Objects. ■

How Do You Pick What To Measure?

Most companies use a wide range of approaches to uncover the best KPIs for their business.



Source: A survey by The Data Warehousing Institute of 360 respondents

A Method(ology) Without Madness

A systematic foundation is needed to manage business processes and performance.

Initiatives to manage business processes and enterprise performance can drive you mad unless there is a method behind them.

Enterprise performance management (EPM) and business process management (BPM) initiatives commonly use a systematic methodology across business and management processes. This methodology allows users to monitor, measure and improve performance in a structured environment that is the same for all business units.

"The most successful methodology is based on what you are already doing internally," says Patrick Morrissey, worldwide marketing director for enterprise performance management at Business Objects. "The driver for success is applying this methodology consistently."

Too often, though, companies cause problems by using too many different methodologies from department to department. At their heart, EPM and BPM initiatives demand coordination throughout the organization.

Consider Hewlett-Packard Services (HPS), which deployed a balanced scorecard methodology in early 2002 to measure customer service in its European region. The original system supported nine metrics and had 800 users. Within 18 months, the system grew to support 120 metrics and was used by 5,500 HPS employees throughout the world.

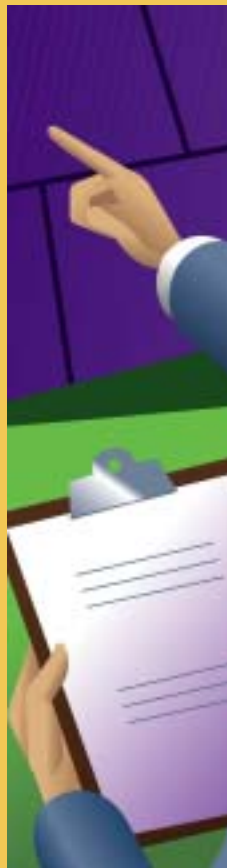
Standards Questions

The methodologies that are used to track and measure performance go under the umbrella term of "scorecarding." This shouldn't be confused with "a balanced scorecard," which is only a type of scorecarding. Among the others are economic value added, total quality management, activity-based costing and six sigma. The two most common methodologies for EPM and BPM initiatives are balanced

scorecards and six sigma.

Balanced scorecards, developed in 1992, attempt to translate an organization's mission statement and business drivers into a series of defined metrics. A fully implemented scorecard cascades down from the uppermost levels of the company, ultimately providing a personal scorecard for each member of the organization.

"A balanced scorecard helps set the roadmap that lets companies identify the key goals they want to achieve and how to get there," says Jonathan Hornby, director of performance management, worldwide strategy group at SAS. Measuring employees through scorecards helps eliminate problems with compliance with EPM and BPM initiatives. "If you start measuring someone based on a scorecard, they will change their behavior to affect the scores," he notes. ■



Scoring Scorecards: Seven Secrets For Success

Take Your Time. Scorecard implementations usually take three to six months, and the longer they take the more effective they are.

Pilot Makes Perfect. Pilot programs significantly increase the chances of success.

Think Large. Large companies benefit more from scorecarding than smaller ones.

Go For C-level Sponsorship. Whether it's the CEO, CIO, COO or CFO, it's critical.

Get Dedicated. Many companies start with spreadsheets, but dedicated scorecarding software becomes more necessary as data volume grows.

Don't Overdo Consultants. Leaving employees out of the process tends to isolate them, resulting in a less useful scorecard.

Go For The Customers. The greatest benefit from scorecarding is at the customer level, followed by the team, organization and divisional levels.

Source: SHAPS International Online Scorecard Study

continued from page 5

new level, where everyone in the enterprise uses the data for strategic action to make not just strategic and tactical decisions but operational ones as well.

Enterprise Performance Management

Sound business processes and good data prepare a company for enterprise performance management. Getting a handle on EPM can be difficult because all sorts of people define EPM in subtly different ways and because it involves so many different elements. Technology, software, business intelligence, budgeting, financial reporting, scorecards,

lowest priced nuts and bolts. EPM can provide the deep visibility most companies now lack. It allows executives to see the interconnections of the actions of people throughout their organization.

Before a big management meeting with directors, some executives have teams spend weeks pulling together data and slides for their presentations. EPM provides a mechanism to gather the necessary data quickly, so teams can spend their time more productively—analyzing the information and acting on it. “How many times have managers gone into a meeting with information from different systems and spent all their time arguing over where

chipper/shredders and other products, used Cognos technology to reduce its financial reporting process from three weeks to one week. What’s more, the company now has more time to analyze data and get that information in front of employees more quickly.

Brigham and Women’s Hospital relies on SAS technology so 650 employees can look at a 30-metric hospital scorecard and immediately see how their actions relate to overall strategy and change their goals accordingly.

Insurance companies are using EPM technology to reduce claims payout and administrative costs as well as to improve customer service and retention. “Speeding up the processing of property and casualty claims can have a major impact on customer satisfaction and, ultimately, customer retention,” says Martyn Christian, chief marketing officer for FileNet. “Insurers are looking for more effective ways to handle large volumes of documentation to evaluate claims more quickly, easily and efficiently. At the same time, these companies are looking to reduce the cost of these processes and expose fraudulent activity.”

The Common Misconception

The common misconception about EPM, says The Data Warehousing Institute’s Eckerson, is that it is simply designed to improve performance in general. In truth, EPM is about focus: Helping firms narrow in on the few things that really drive business value instead of the many things that generate activity but don’t contribute to a company’s long-term health.

He views EPM as a four-stage process: strategize, plan, monitor, and act and adjust. The first two steps are strategic, the last two action-oriented. Together they form a closed loop between strategy and execution by adjusting strategy to fit the demands of the market.

Companies can get started with EPM

RESOURCES

AMR Research

<http://www.amrresearch.com>

BPM Forum

<http://www.bpmforum.org>

Business Objects SA

<http://www.businessobjects.com>

Cognos Inc.

<http://www.cognos.com>

Deltek Systems Inc.

<http://www.deltek.com>

The Data Warehousing Institute

<http://www.dw-institute.com>

FileNet Corp.

<http://www.filenet.com>

SAS Institute Inc.

<http://www.sas.com>

Siebel Systems Inc.

<http://www.siebel.com>



dashboards, forecasting and key metrics have to be tied together in a seamless manner. Some people call EPM a combination of BI metrics and a methodology that provides information to users at the right time in the way they want to view it.

EPM is about improving communication. If a company’s primary goal is quality, that might be undermined by an operations manager who buys the

data came from?” asks Karen Williams, vice president of product marketing, enterprise business intelligence at Cognos.

EPM provides many other day-to-day advantages too. It can optimize productivity, improve the quality of production, delivery time and customer satisfaction, and make all sorts of procedures more efficient. For example, Murray Inc., an \$800-million maker of snowthrowers,

in three ways: "the big bang" enterprise-wide approach; the cross-functional approach; and the functional approach. Most vendors recommend the third. If you start at too high a level, "often there is political infighting because people have different definitions of what success means and what the values of the organization are," SAS's Hornby says.

But in starting from the bottom up, departments must be on guard against creating new silos, so even functional EPM should begin with a high-level roadmap tied to corporate objectives.

"When talking about Process Performance Benchmarking, the first need is to establish measures with which an organization can evaluate its performance and ultimately determine success in supporting stated business objectives," says Chris Preston, director, BPM Products at FileNet. "Performance measures must be tied to the overall corporate/business objectives and need to be balanced in accordance with these goals. In other words, some goals may yield conflicting objectives on key performance indicator (KPI) performance."

Preston adds that "these KPIs need to be prioritized and weighted in accordance with these stated objectives and focused on striking the right balance, which can continuously shift as needs and market demands change. Even

after establishing benchmarks, you still absolutely need the operational visibility to give you insight into how you are actually performing within these processes and the performance of the operation overall. Again, the old adage holds true. You can't fix what you can't see. You can't improve on something until you actually understand what exactly it is that you are doing."

Closing The Gap

EPM requires companies to understand the data they have and deliver the key metrics in a form that users can understand, whether dashboards, scorecards embedded in corporate portals or ad hoc reports. At the same time, users must be able to drill down to detailed reports and interactive charts so they have the information they need to take action. Only in this way can employees align their daily actions with other departments and the strategic goals of the organization as a whole, closing the gap between strategy and execution.

There is no question that turbocharging an enterprise through BPM, BI and EPM can make profitability boom. Take, for instance, the problem of out-of-stocks. A BPM system allows companies to have a much clearer interpretation of demand signals. A regional sales manager could see, for example, that diapers or detergent is moving off the shelf more quickly at a certain location, which will quickly lead to stock-outs.

With a BPM system in place, the manager would be alerted quicker and might decide it makes good business sense to FedEx a special order to that location. AMR's Austvold notes that Procter & Gamble, which is fine-tuning its BPM system, estimates if it could reduce its stock-outs around the globe by 10 percent, it would have the same benefit to the company as creating another billion-dollar brand. ■

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