

Enterprise Performance Management (EPM) Briefing Document

Authored by Gary Cokins, CPIM
gcokins@kralussery.com

Topics Addressed

- What is EPM?
- What is the problem companies have with EPM?
- What are symptoms that a company needs EPM?
- What are our EPM consulting service offerings?
- How do we do it?
- Why do we do it?
- Pain questions that organizations struggle answering
- The “Big Picture” of EPM

What is EPM?

Enterprise performance management (EPM) should be viewed as the seamless integration of multiple managerial methods. Some of the primary EPM methods are strategy execution with a strategy map and its companion balanced scorecard (KPIs) and operational dashboards (PIs); capacity-sensitive driver-based budgets and rolling financial forecasts; product, service-line, channel, and customer profitability analysis (using activity-based costing [ABC] principles); customer lifetime value (CLV); enterprise risk management (ERM); and lean and Six Sigma quality management for operational process improvement.

Each method should be embedded with business analytics of all flavors, such as correlation, segmentation, regression, clustering, and association analysis – and especially predictive analytics as a bridge to prescriptive analytics to yield the best (ideally optimal) decisions.

Kral Ussery's (KU) EPM consulting service offerings provide a path for clients to complete the full vision of analytics-based enterprise performance management.

What is the problem companies have with EPM?

The EPM methods should be viewed as “gears in a machine” which need to be meshed with digital integration. But most organizations are missing some of the EPM “gears”. And for those EPM “gears” they do have, the “gears” are deficient and not well meshed.

Kral Ussery's EPM consulting service offerings integrate the EPM methods. And we imbed business analytics into each EPM method. The result is direction, traction, and speed.



What are symptoms that a company needs EPM?

- Mistrust of the accounting system by management and employees for accurate and transparent costs.
- Lack of understanding of true costs, hence of accurate product, channel, and customer profitability reporting.
- Inadequate communication of the executive team's strategy to its managers.
- Poor selection of key performance indicators (KPIs).
- Dysfunctional budgeting; a need for capacity-sensitive driver-based rolling financial forecasts.
- Poor customer retention, growth and acquisition.

What are Kral Usery's EPM consulting service offerings?

The four primary *EPM consulting services* are:

1. measuring and managing product, channel, and customer profitability;
2. designing a strategy map (Kaplan & Norton) and its associated balanced scorecard (for strategy execution with KPIs);
3. developing a capacity-sensitive driver-based rolling financial forecast system; and,
4. assessing the stage of maturity of an organization's management accounting practices and systems.

How do we do it?

We use a rapid prototyping with iterative re-modeling approach to implement each EPM method. Start small, but think big. This approach is engaging because our client is modeling their own organization, not a fictional case study. Rapid prototyping accelerates learning by our client's managers, gets buy-in from their skeptics, right-sizes the complexity of the EPM system, and achieves fast results that increases the ROI from the EPM methods even higher.

Why do we do it?

Most organizations are far from where they want and need to be with improving their strategic, operational, and financial performance. They apply intuition, rather than fact-based data, when making decisions. Their adoption rate of EPM's methods is agonizingly slow to professional who are aware of the power of EPM. Software and IT technology is no longer the impediment slowing the adoption rate of EPM methods. The barrier involves people – including resistance to change, fear of being measured and held accountable, and fear of others knowing the truth. *KU consulting service offerings* help clients implement the EPM methods.

I believe that in the past the best leaders and executives had the best answers. Today that is no longer the case. Today the best leaders have the best questions. There is too much complexity and volatility for them to rely on their instincts or past decisions. Analytics allow asking relevant questions that lead to better questions and needed conversations that eventually can answer the questions. Kral Usery believes executive need to create "a culture for analytics". KU can assist with fulfilling this need.

Pain questions that organizations struggle answering:

Strategy execution with key performance indicators (KPIs)

- How well do our managers and employees understand our executive team's strategy?
- Are we measuring the right metrics?
- If we are measuring key performance indicators (KPIs), are they "balanced" between financial outcomes and the non-financial measures related to customer loyalty, process improvement, employee learning & growth, and innovation?
- Are we measuring too many strategic KPIs where many are arguably operational performance indicators (PIs)?

Cost and profitability reporting and analysis

- Are our product and service-line costs accurate?
- Do we properly "allocate" our indirect expenses (i.e., overhead) to calculate reasonably accurate product and service-line costs based on "causal" relationships? Or do we "butter spread" expenses with cost allocation factors simultaneously over- and under-cost products and service-lines?
- Do we measure non-product channel and customer expenses (e.g., distribution channels, selling, marketing, customer service) to report profit or loss by each customer?
- Do we know which customers are more attractive to retain, grow, win-back and acquire?
- For the more attractive customers, do we know the ROI from our different actions to achieve profit lift from them (e.g., price discounts, deals, offers, coupons)?

Budgeting, Planning, and Driver-based Rolling Financial Forecasts

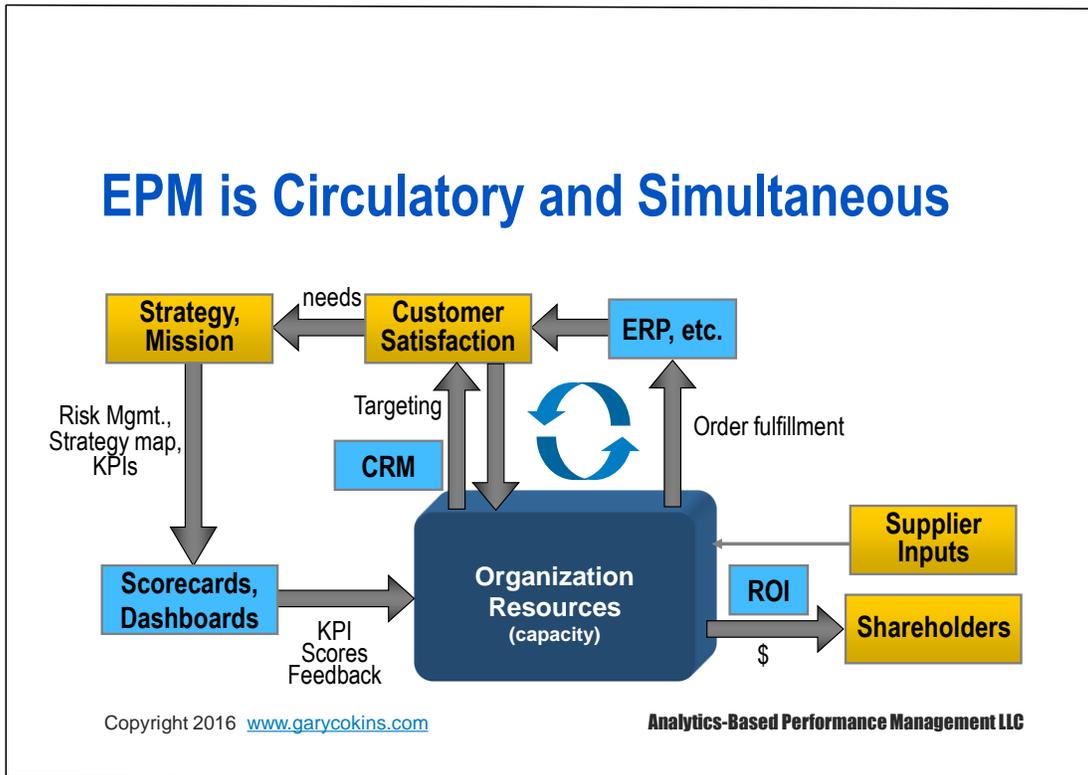
- How effective is our annual budgeting process? Does its benefit exceed the administrative effort and costs to produce it?
- Is the budget out of date within a few months after it is published?
- Do experienced managers "pad" their department's budgets?
- Is consolidating cost-center budget spreadsheets bottom-up cumbersome?
- Do we understand incremental / marginal expense analysis classifying the behaviour of our resource capacity expenses as sunk, fixed, step-fixed, or variable based on the planning time horizon?

Decision Making, Competency with Analytics, Resistance to Change

- Are many of our decisions based on intuition or experience rather than on fact-based data?
- How much competency does our organization have with analytics?
- How much resistance to change does our organization have that is slowing our adoption rate of progressive managerial methods?

The "Big Picture" of EPM

This diagram below displays the "big picture" of EPM. It views EPM as a circuitous flow of information, through the various EPM methods. It connects customers (the primary source of value creation) to shareholder/owner financial value creation through processes and decisions.



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Training Sessions Offered by Gary Cokins

The following in-house training sessions are led by Gary Cokins, CPIM:

- [Analytics-Based Enterprise Performance Management](#)
- [Impact of the Digital Revolution on the Accounting Profession](#)
- [Measuring and Managing Customer Profitability](#)

Gary Cokins can be contacted at gcokins@KralUssery.com. Please visit our website www.KralUssery.com for more information.