Exceptional CPM Systems are an Exception

Gary Cokin's

Knowledge Series:

Analytics-based Enterprise and Risk Performance Management

By

Gary Cokins, CPIM

Advisor, Neozen Consulting Inc.
Founder, Analytics-Based Performance Management LLC
http://www.garycokins.com

Many organizations over-rate the quality of their enterprise and corporate performance management (EPM / CPM) methods and supporting software systems as well as exaggerate how comprehensive and integrated they are. For example, when you ask executives how well they measure and report their costs and non-financial performance measures, most proudly boast that they are very good. However, this is inconsistent and conflicts with surveys where anonymous replies from mid-level managers candidly score their scaled answers as “needs much improvement.”

Every organization cannot be above average!

What makes exceptionally good EPM / CPM systems exceptional?

Rather than try to be a sociologist and psychiatrist to explain the contradictions of executives boasting superiority while anonymously answered surveys reveal inferiority, let’s simply describe the *full vision* of an effective EPM / CPM system that organizations should aspire to.

First, we need to clarify some terms and related confusion. EPM / CPM is not a system and is definitely not a process. It is the *integration* of *multiple* managerial methods – and most of them have been around for decades arguably even before there were computers. EPM / CPM is also not just a CFO initiative with a bunch of scorecard and dashboard dials. It is much broader. Its purpose is not about *monitoring* the dials but rather *moving* the dials.

What makes for exceptionally good EPM / CPM is that its multiple managerial methods are not only each effective but also they are seamlessly integrated and imbedded with analytics all flavors. Examples of analytics are segmentation, clustering, regression, and correlation analysis.

EPM / CPM is like musical instruments in an orchestra

I like to think of the various EPM / CPM methods as an analogy of musical instruments in an orchestra. An orchestra’s conductor does not raise his or her baton to the strings, woodwinds, percussion, and brass and say, “Now everyone play loud.” They seek balance and guide the symphony composer’s fluctuations in rhythm and tone.

Here are my six main groupings of the EPM / CPM methods – its musical instrument sections:

1. Strategic planning and execution – This is where a strategy map and its associated balanced scorecard fits in. Together they serve to navigate the organization to fulfill the organization's mission and vision and the executive team's strategy to meet the mission's calling. The executives' role is to set the strategic direction to answer the question "Where do we want to go?" Through use of correctly defined key performance indicators (KPIs) with targets, then the employees' priorities, actions, projects, and processes are aligned with the executives' formulated strategy.

2. Cost visibility and driver behavior – For commercial companies this is where profitability analysis fits in for products, standard services, channels, and customers. For public sector government organizations this is where understanding the costs of their outputs that consume processes and resources fits in. Activity-based costing (ABC) principles are foundational by modeling cause-and-effect relationships based on business and cost drivers. This involves progressive not traditional managerial accounting.

3. Customer intelligence – This is where powerful marketing and sales methods are applied to retain, grow, win-back, and acquire *profitable*, not unprofitable, customers. The tools are often referenced as customer relationship management (CRM) software applications. But the CRM data is merely a foundation. Analytics, supported by software, leverage CRM data to define actions to create more profit lift from customers. They impact the behavior of customers from being satisfied to being loyal.

4. Forecasting, planning, and predictive analytics – Data mining typically examines historical data "through the rear-view mirror." This EPM / CPM grouping shifts attention to look forward through the windshield. The benefit of more accurate forecasts is there is reduced uncertainty. Forecasts of future volume and mix are core independent variables from which so many dependent variables have relationships and can therefore be calculated and managed. Examples of dependent variables are the future headcount workforce and spending levels. CFOs increasingly look to driver-based budgeting and rolling financial forecasts grounded in ABC principles using this group.

5. Enterprise risk management (ERM) – This cannot be omitted as a main group of EPM / CPM. ERM serves as a brake to the potentially unbridled gas pedal that EPM / CPM methods are designed to step hard on. Risk mitigation projects and insurance requires spending which reduces profits and also steers expenses from resources the executive team would prefer to provide earn larger compensation bonuses.

6. Process improvement – This is where lean management and Six Sigma quality initiatives fit in. Their purpose is to remove waste and streamline processes to accelerate and reduce cycle-times. They create productivity and efficiency improvements.

EPM / CPM as integrated suite of improvement methods

CFOs often view financial planning and analysis (FP&A) as synonymous with EPM / CPM. It is better to view FP&A as a subset. And although better cost management and process improvements are noble goals, an organization cannot reduce its costs forever to achieve long term prosperity.

The important message here is that EPM / CPM is not just about the CFO's organization; but it is also the integration of all the often silo-ed functions like marketing, operations, sales, and strategy. Look again at the six main EPM / CPM groups I listed above. Imagine if the information produced and analyzed in each of them were to be seamlessly integrated. Imagine if they are each imbedded with analytics – especially predictive analytics. Then powerful decision support is provided for insight, foresight, and actions. That is the *full vision* of EPM / CPM to aspire to.

Today exceptional EPM / CPM systems are an exception despite what many executives proclaim. If we all work hard and smart enough, in the future they will be standard practices. Then what would be next? Automated decision management systems relying on business rules and algorithms. But that is an article I will write about some other day.