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Keynote Address: Coping with Uncertainty, Volatility and Risk -- Key Steps for an Effective Planning Process

Ben Plummer: Welcome, everyone, to our presentation today on Managing Uncertainty, Volatility and Risk in Mid-Sized Companies.

My name is Ben Plummer and I'm the Business Unit Director at the IBM Business Analytics Mid-Market Products Division here at IBM. And today we're going to focus our time and attention on really understanding some of the trends that are driving organizations in the mid-sized business sector toward more effective planning and deployment options.

One of the key areas we at IBM try to reach out to our customers around is in understanding what drives the mid-sized sector and what really gives them the perspective that they need and, on an annual basis, we actually publish a document, a white paper if you will, that outlines some of our findings. And this year, it was quite interesting, there's been some major shifts in a number of the trends that have occurred, indicating that there's some changes in thinking going on out there in the mid-sized business sector.

Let's take a look at a few of those, because I think they really lay the groundwork for the presentation we're going to go into a little later. If you took a look, a couple of years ago, in 2009, at what people were really thinking, it was really around trying to maximize their business operations, maintain kind of a cost management concept, and they really weren't looking to do a lot in terms of really driving out new initiatives that brought revenue or changed the customer focus, and what happened in this year's segment is quite the opposite. What we're actually seeing here, almost a 32-point change, if you will, from sort of driving operational efficiency now is more an investing for innovation in their businesses and trying to drive out revenue growth, improve customer satisfaction and in effect grow businesses, versus just trying to maintain their operational effectiveness.

And this trend really leads us to kind of wonder where people are going to invest to encourage this and make this happen. And about 70% of mid-sized firms today think analytics, in a number of areas, specifically, are really going to be the key for driving out this type of business. Most organizations today are planning to do something, either to improve the investment decisions they're making, expand strategic areas that they're working on, enhance customer targeting, improve customer insight. This represents almost 60% of what people are going to be investing in. Sure, we're going to continue to look at ways to improve our efficiency, but the shift has really moved towards how are we going to enhance our businesses, grow our businesses, invest for the future. And to do that, business analytics is going to play a very, very key role.

Now when they think about business analytics, it's more than just simply looking at data. It's really going to be gathering the information that drives the business today, understanding it through analysis, understanding it through more effective dashboarding and reporting, which gives them insights into how that business is working, where they can start really digging down

on cause and effects and ways to invest that are going to drive out better responses from their customer base as well as enhancements and innovation in their products. To do that, they're going to have to look at ways to change their budgeting and allocation and their funding, enhance their planning and take action. So a full business analytics solution is really going to be the key, not simply one piece of this operating independently.

To do that, they're going to require a technology that really takes them through that whole cycle of simply looking at data through query and reporting, organizing that into dashboards that can be driven and analyzed more deeply by the people who run the company and then driving that right back into their plans, that ultimately deliver changes in the way the business is executed. And IBM Cognos Express, which is the IBM Cognos business analytics solution for the mid-market, is really designed and built to drive that out.

And specifically, we've enhanced this particular product line this year by offering the first ever planning-specific, planning purpose-built module, tied to the overall Cognos Express platform. So this really now gives an organization, be it mid-sized or departments, the capability to do everything from reporting and analyzing data to advisor, enhancing that through Excel interactions and then actually developing and creating the complete plan. And this whole concept is really what's driving a lot of the thinking that goes into our next presenter's section of the organization -- of the information that you're going to see today.

And it gives me great pleasure to introduce David Axson, who's the President of Sonax Group and the author of "The Management Buster" (sic) to really take you through some of the heart and soul of the presentation today around managing the uncertainty in this particular area for mid-sized companies. So with that, I'd like to turn it over to you, David.

David Axson: Thank you very much and hello, everybody.

I don't know about you, but I'm pretty exhausted, based upon the events of the last few years. We seem to be living in a world of intense turmoil. Events are occurring with increasing regularity that are material to our businesses and whether you're a large company or a small mid-market business, these things are now material issues that you have to address as you go through business, be it Lehman Brothers, H1N1, volcanic ash closing down Europe.

Now it's not that these are new events, but when I was a kid, growing up in England in the 1970s, these things happened, but they were just interesting items on the six o'clock news. They weren't issues we had to deal with when we went to work the next morning. But now, it doesn't matter what -- how -- what size of company you are, these material global events are having an impact on the way you think. They're having an impact on your suppliers. They're having an impact on your customers. And perhaps most important of all, they're having an impact on your customers' customers. So if you want to stay viable and stay visible in the marketplace, it's incredibly important that you seek to capitalize on the opportunities that analytics and the tool sets around analytics provide for you today.

Now the cool part of this is, we've seen over the last five years, the price point for entry into this type of sophisticated technology has declined dramatically. You no longer need to be a

General Electric or even an IBM to afford these types of tool sets. But the other component that's very interesting is the functional richness of the tool sets, the ability to apply sophisticated analytics in any size of organization today.

The advantage mid-market companies have is they can move faster. They can be more agile. They can be more flexible and they can be more nimble in applying these tool sets. Why is this important? Well, it's the uncertain world that we live in today. Predictability is no longer a given. In fact, the only thing that's predictable about the future is its unpredictability. So we need some different tool sets to be able to begin to start to understand the implications for our business.

But it's more important than that. One of the key issues we face today is we're wasting valuable time. Professional staff time is at a premium, and if you go and ask the average financial analyst what's changed in their role over the last 20 years, many of them will give you a simple answer. Well, 20 years ago, I used Lotus 123 and now I use Excel. When you think about the investment that has been made in tools and technology, we haven't really liberated the financial analyst from the spreadsheet morass that has driven so much of our activity in recent times. It doesn't have to be that way. In fact, it can't be that way any longer.

So if you begin to look at where financial analysts are spending their time, this is based upon the benchmark research that I conducted jointly with IBM over the last two or three years, as much as 40% of professional staff time is spent actually getting hold of data. Not switching their brain on and asking what does the data mean, it's getting hold of the basic data, extracting it from core systems. Sending a spreadsheet attachment to an email to 42 different people, saying give me these numbers. So we spend 40% of our time simply getting the data.

We then spend a little over 20% of our time keying it all into the spreadsheets, but also making sure those spreadsheets remain relevant to our ever-changing organization. We sell a business, we buy a business, we merge two departments. It's great job security, keeping all of our tools and spreadsheets up-to-date with the organizational changes. But you didn't need to go and get an MBA or a CPA to perform that role.

And increasingly, we're seeing financial staff spend an inordinate amount of time reformatting information and dropping it into reports. That can be PowerPoint slides or perhaps the most valuable feature in Excel is that little feature, when you print, that says fit to one page. Now it comes out in two-point font, and you need a magnifying glass to read it, but it doesn't really give you the insight in terms of speeding up decision making.

In the average organization today, only 15% of professional staff time is spent actually doing analysis, which if you translate that into the work week, means you don't switch your brain on until 11 o'clock on a Friday morning.

Very few of us have the luxury in our organizations of waiting until Friday and spending the whole of the rest of the week getting ourselves ready to actually do our jobs. It's unacceptable. We have to liberate our professional staffs, and analytic tool sets are an incredibly powerful way of, what I like to call, building the last mile. Now this is building the bridge from all the

infrastructure of systems that we've invested in in recent years, shared service centers, ERP systems, accounting systems, data warehouses and building that final connection to the analyst and the business manager that allows them to derive insight and make better decisions faster.

So what do we need to start doing? Well, I'm a big fan of acronyms. So one of the things we need to think about if we've got to stop doing some basic things. We've got to stop mucking about with spreadsheets. We've got to stop putting numbers in boxes. And we've got to stop building reports by hand.

Now the cool thing about it is the tools and technology are available to empower you to do all of these things. Investing in analytics and risk management cannot -- you're not going to be able to go into your CEO's office and say we could do some really cool analytics and we can much more effectively manage risk if you let me go out and hire ten new people.

That's not a winning proposition today and it won't be a winning proposition tomorrow. We need to reprioritize our efforts, and we need to build that last mile of information delivery, collaboration and analytic integrity that really allows us to do more with the same resources. So we have to stop doing this wasteful activity that means we don't switch our brains on until 11 o'clock Friday morning.

So what does that mean in terms of finance agenda going forward? Well, when I talk with CFOs today and I think about what are your priorities, mid-sized companies for 2011. Well, I think there are three things. The last two, we've been talking about for some time, making analytics real. And I'll talk in a minute about what I think that means and give you some examples. Embracing risk. Uncertainty is here to stay. We can't continue to use extraordinary or exceptional events as excuses. When you say it was unprecedented, what happened in the marketplace, and you use that as an excuse three quarters in a row for why you missed your numbers, it's not really very unprecedented anymore.

But before we can get to making analytics real and embracing risk, we have to do what I just talked about, which is to liberate our professional staffs. The good news is, many organizations are on that journey and some are pretty close to the destination. So if we begin to look at how organizations are effecting change, here's what I suggest the model needs to look like. And when we did our benchmark research, around 15% of all companies fit this profile. They have really focused their finance team.

Monday morning, we spend collecting the data. I'm sorry. Despite what people may say to you, it isn't going to go away. But it's going to be 10% or less of the time. There will be data that you need to source. But then, by noon on Monday, your brain is off and running. You're really doing analysis.

And what does analysis mean? I think it's as simple as answering three questions. What happened? Why did it happen? And what are the implications for our business? That's my definition of insightful analytics. If you can then sit down with a decision maker and have a content-rich discussion about what happened, why did it happen and what are the implications for our business, which then leads to the discussion of what action, if any, should we take, you

can be much more responsive. You could start to begin to take action quicker and you could start to begin to capitalize on opportunities that present themselves in the marketplace, but also mitigate risk and threat.

And under this new model, guess what? Your people have time to invest in themselves. They also have time to participate, maybe, in some more strategic thinking, strategic initiatives that can build value in the organization for the future.

And one of the things I would ask yourself, we're going to be in a war for talent very soon. It may not feel like with it with 8% to 9% unemployment, but talented finance staff are at a premium. Now maybe the last three years have given us the luxury of our best people not really going and looking for new jobs because they're not out there. That's changing. And it will change very quickly.

So I'll ask you another question. Take this picture here and contrast it with the one I shared with you a couple of minutes ago. Which of these two organizations do you think is going to be able to attract and retain the best talent? I think it's a pretty clear cut decision. It's not just good for the business, it's good for your organization, and it allows you to capitalize on the education, training and experience of those talented finance professionals that reside within your organization.

So what does this mean in practical terms? Well, one of the things we need to think about is are we measuring the right stuff? Here's an example from a global aid organization I have the pleasure of working with. Like many organizations, it was formerly a bureaucracy. The budget dictated your power base. Big budget, powerful person, small budget, not a very powerful person.

When I started working with this organization, that measurement was centered on the left-hand side of this slide. Everything was measured on a time and budget basis, very traditional projects. This organization was really focused on providing clean water supplies in developing countries, with a function, but one of the statistics that blew my mind is child mortality rates in these markets could decline by up to 50% if people just had clean water to drink. But they weren't measuring that. They were measuring whether the project was on time and on budget and so they have lots of green lights on their scorecard.

But did you know if they were actually accomplishing their objectives? So the first step we went through was to actually measure what had been delivered. Six of ten wells have been completed and three of seven filtration systems have been installed. Better, but still not where you need to be.

The final step was to actually say are we getting the impact, the value that was expected when we started this? Are mortality rates declining? Is the incidence of water-borne disease, such as cholera, declining. Very topical, with what we've been hearing out of Haiti recently as they struggle to recover from last year's disaster. And basically a cholera epidemic has broken out.

What are the equivalent metrics in your organization of mortality rate and cholera that really determine whether you're fulfilling your mission and your objectives? We need to measure the right stuff.

Next, we need to get the balance and our information right. If you look at most management reports that are delivered today, they're overwhelmingly biased to the left-hand side of this slide. It's financial. It's internal. It's about stuff we're doing inside our own organization and it's about what happened last week, last month or last quarter.

We need to reposition the balance. We need a balance between financial and operational information. This is the area we've made the most progress. We do report things like quality, customer satisfaction, et cetera. We need a balance between internal and external data. What's happening with your markets and customers? And we need a balance between historic information and predictive information, what may happen in the future.

Imagine going and knocking on your CEO's door and asking him or her what they would prefer, absolute precision about what we did six weeks ago or a range of estimates about what our customers and competitors may do tomorrow? I think it's pretty clear what the answer would be and therefore we need to think about are we dedicating enough time to the right-hand side, in terms of thinking about the information that really helps us get ahead in the marketplace.

Next, targeted analytics. Here you have a spreadsheet, or a planning template, this is actually a rolling five-quarter forecast. But our -- what we've done here is actually highlight risks in the forecast. We've used simple thing, color coding, to give us a sense of where the risky numbers are in this forecast. Because not all forecast numbers are created equal. Here we have a particular client contract that's due for renewal in the third quarter. But we already have intelligence that that client may put it out to bid. It's important we understand that, because that's a risky number in this forecast. And then we have the classic sales team plug in the bottom line. They've got numbers out there, but they have no clients assigned to them. They have no idea where that money's going to come from. Very important we understand the relative riskiness.

The tool sets today allow any size organization to conduct and communicate this type of insight, which really helps management focus on the areas of the business that are the most important.

Next, we can't predict the future. Our crystal ball isn't good enough. All organizations today need to embark on some element of scenario planning. And this isn't just at the strategy level. It can be down at the budget or even the quarterly forecast level. For example, as we enter 2011 and get rolling here, how many of your organizations have a good view of how your business would perform and how your priorities would change under each of these three different scenarios. Maybe it is a double dip and we return to crisis. Maybe we're in stagnation. We're going to see very low growth. The consumer is sort of spending, but not really. What are the implications of that for your business?

And we all hope that we're in the right-hand bucket. Growth returns and we can start investing with confidence and start to see earnings and revenues rising. But that is by no means a given. The ability to understand how your behavior changes under different scenarios is one of the key values that analytic applications can bring to your organization, so you can have a rich conversation about alternative scenarios and different strategies.

Risk, it's everywhere. And risk is not necessarily a bad thing. But do you really understand something like revenue at risk in your business? Do you understand your exposure in these emerging markets or these troubled countries? Do you understand your risk exposure by sector? For example, I have two companies that I know that make wire harnesses that they use in engines. One's been selling into the automotive sector and the other has been selling into the military defense sector. It's pretty easy to guess which one of those companies had the best performance over the last three years.

So understanding your revenue at risk, a very easy analysis to do, that can help buy you time by looking at the relative health of the different sectors or geographies in which you choose to do business. It's basic analytics and it's a lot more effective than integrating multiple spreadsheets from multiple different parts of your organization.

This is what analytics means. This is what analytics means in an uncertain and volatile world. And we need to be much more effective at deploying these tool sets and liberating our analytics, so that we can focus on insightful analysis to try to grow the profitability, but also to effectively manage risk.

So what does it really mean? What does building this last mile of connectivity to our financial analysis and decision makers really mean in mid-sized companies?

It's really basic. You need to do five things. We need to eliminate all manual hand-offs in the collection, validation, reporting, dissemination of information. We've talked about that for a long time. The talk needs to stop. We need to make it happen. We need to integrate analytics with core business information systems to allow for easy, fast and accurate access to data. An email attachment is not an automated download. Develop monitoring and early warning systems. Don't tell me when the customer has received the refund. It's a bit late. I need to know much earlier in the cycle or [its dissatisfactory risk] on the part of our business. We need those early warning systems, those triggering events that buy us the most valuable commodity of all, which is time.

We need to embed control and compliance policies, practices and metrics into all of our operational processes, so that we have high confidence. It's no longer good enough to apply all the control at the back-end. The world is too volatile and it moves too fast. We need to integrate it into the process. And last, but probably most important, we've got to invest in the attraction, development and retention and rewarding of talented finance professionals. That's the key.

The beauty of where we are today is that the barrier to entry is no longer restricted to large organizations. With tools like Cognos, you could begin to deploy these capabilities and start to

deliver real insight, real analytics and real value through your finance organization to the rest of the organization you serve, which can only lead to sustained success in the future.

I hope these insights have given you something to think about. It's been an absolute pleasure to share them with you today.

Ben Plummer: Thank you, David.

I have to say, in my time, working in this industry, which is 23-plus years, that's one of the best overviews I've ever seen in terms of the value that a planning application or the value of business analytics really brings to an organization, and regardless of size.

And I think he hit on a very key point in his presentation, in that there are ways you can start small, while you're thinking about dealing with the bigger problem. You can decide to start -- stop messing around with those spreadsheets. You can decide to quit typing numbers in boxes is one of your options. You could decide to eliminate your manual reporting and data collection. There's lots of places you can start in your organization to begin to get value from a business analytics solution. You don't have to try to swallow the whole thing at one time.

And that's really the way the IBM Cognos Express product line was designed and built. It was really designed to allow you to select any of those problem areas in your organization, implement a solution there, while thinking about how to deal with the entire problem. And we've dealt with the integration of everything from reporting to the planning for you, so you now have the option to bring a technology into your company, regardless of its size, know that it's easy for you to get started with, easy for you to use, because we've designed the product thinking from the end-users' perspectives backwards, that's why we utilize technologies like Excel, but integrate them into the platform. And we've designed this to be easy to buy. Easy for you to get a look at, get your hands on and understand.

So I think the concept of starting small, keeping the big picture in mind and actually delivering a complete solution as your ultimate goal is the way you should approach this and the IBM Cognos Express solution is designed to help you do that.

There's a number of ways for you to get started. You can go online, take a look at our demonstrations, download a trial version. There's a lot of incentives out there right now to get started. So I think when you get back to that last point of investing that David made. We're trying to make that simpler for you as well.

So with that, I'd like to, once again, thank you, David, for your presentation. It was an outstanding overview on the value that business analytics brings. I hope you've had a chance to pick up a bit of understanding about the IBM Cognos Express solution and we encourage you to get started and really start driving some value in your own organization.

With that, I'd like to thank each and every one of you and encourage you to take David's advice and get started.