

a whitepaper



**x**PM

Aligning technology with the business

part **1**





The management operating system of an enterprise comprises people and organization structures, processes including governance and workflow, and technology including tools and data. It is how an enterprise gets from strategy to execution.

The primary focus of this whitepaper is the overall high-level processes of xPM™ and how it relates to the enterprise management operating system.

After a survey of the market, we expose the underlying foundation of performance management, and supply a model that encompasses the key business process used to enable xPM™.

Finally, we get to the next level of detail in those processes and show how to bring them all together in an organizations' xPM™-enabled management operating system.

### Why “x” PM™?

IBM and Business Objects (which acquired Cartesis) call it BPM (Business Performance Management) which is the original acronym that Hyperion coined in 2003. It also stands for Business Performance Measurement, and Business Process Management – quite different from performance management.

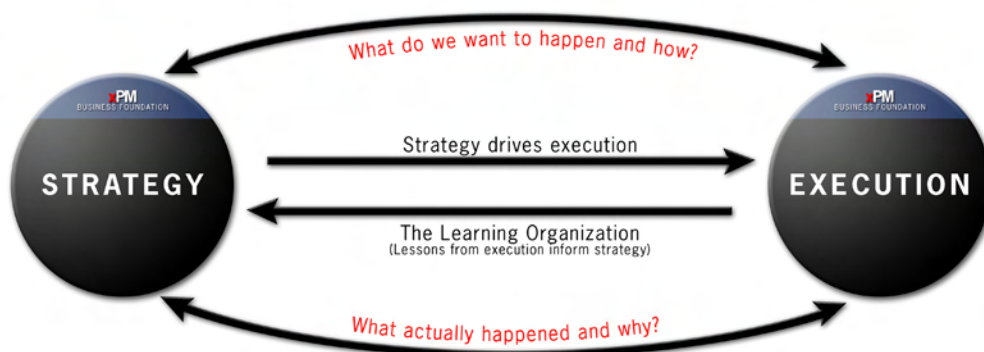
Oracle (which acquired Hyperion) and Accenture call it EPM (Enterprise Performance Management). Cognos, SAP (which acquired Outlooksoft), and Capgemini call it CPM (Corporate Performance Management). Deloitte calls it IPM (Integrated Performance Management) and E&Y call it Financial & Performance Management.

Then there is the popular HR term: Performance Management (also WPM – Workforce Performance Management), quite different from what we're talking about here. We have also seen SCPM (Supply Chain Performance Management) and Alistair Shaw of coOptimum has coined the term Team Performance Management (TPM) for a more granular level and says that  $BPM = CPM + TPM$ . We attended the 2007 Gartner Business Intelligence Summit in Chicago where Nigel Rayner said that  $EPM = CPM + Marketing PM, Sales PM, Contact Center PM, Employee PM, Product PM, and IT PM$ .

The variety of points of view and lack of agreement can get pretty confusing.

### Where We Agree

What all of these acronyms are trying to convey is the idea of a management operating system – including the people, processes, and tools & data – to connect strategy with execution, to optimize resources and returns, and to align what is happening with what we want to happen in an organization.



### Where We Differ

At the Business Foundation, we use the term “xPM™” to refer to the inclusion of all of the above ideas. We think the “x” can mean any letter used above (E, B, C, I) to encompass all of what the vendors do, and it can also mean “eXtended” in that it also encompasses things like Operational Business Intelligence, Enterprise Risk Management, Analytic Applications and other value-added management system solutions.



Focusing on the value of the foundational elements of xPM™ is certainly more useful than arguing about the three-letter-acronym. The foundational elements include:

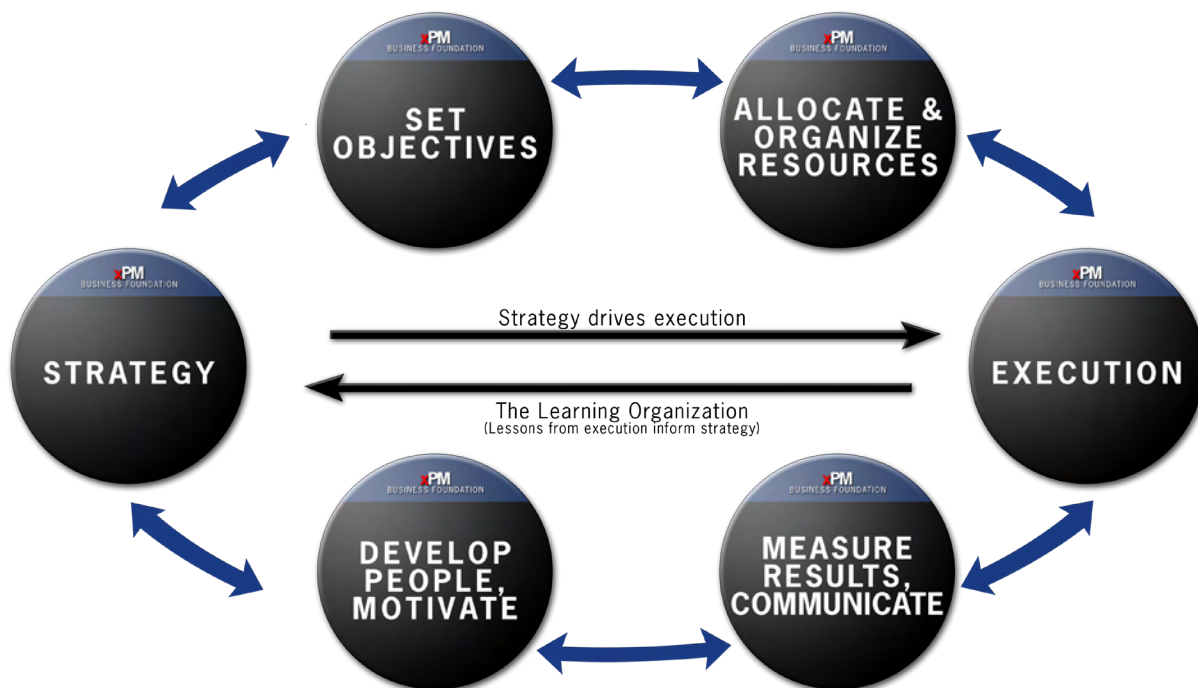
- Connecting strategy with execution,
- Becoming a learning organization,
- Optimizing resources and returns,
- Aligning what is happening with what we want to happen in an organization
- Delivering long-term, sustainable, profitable growth.

### Model #1: The High-level Business Processes

The management processes of an organization should be driven by the job functions of a manager and enable them to make actionable decisions based on facts. Peter Drucker says there are 5 general job functions for a manager, including:

- Set objectives
- Allocate and Organize Resources
- Motivate and Communicate
- Measure Results
- Develop people (including themselves)

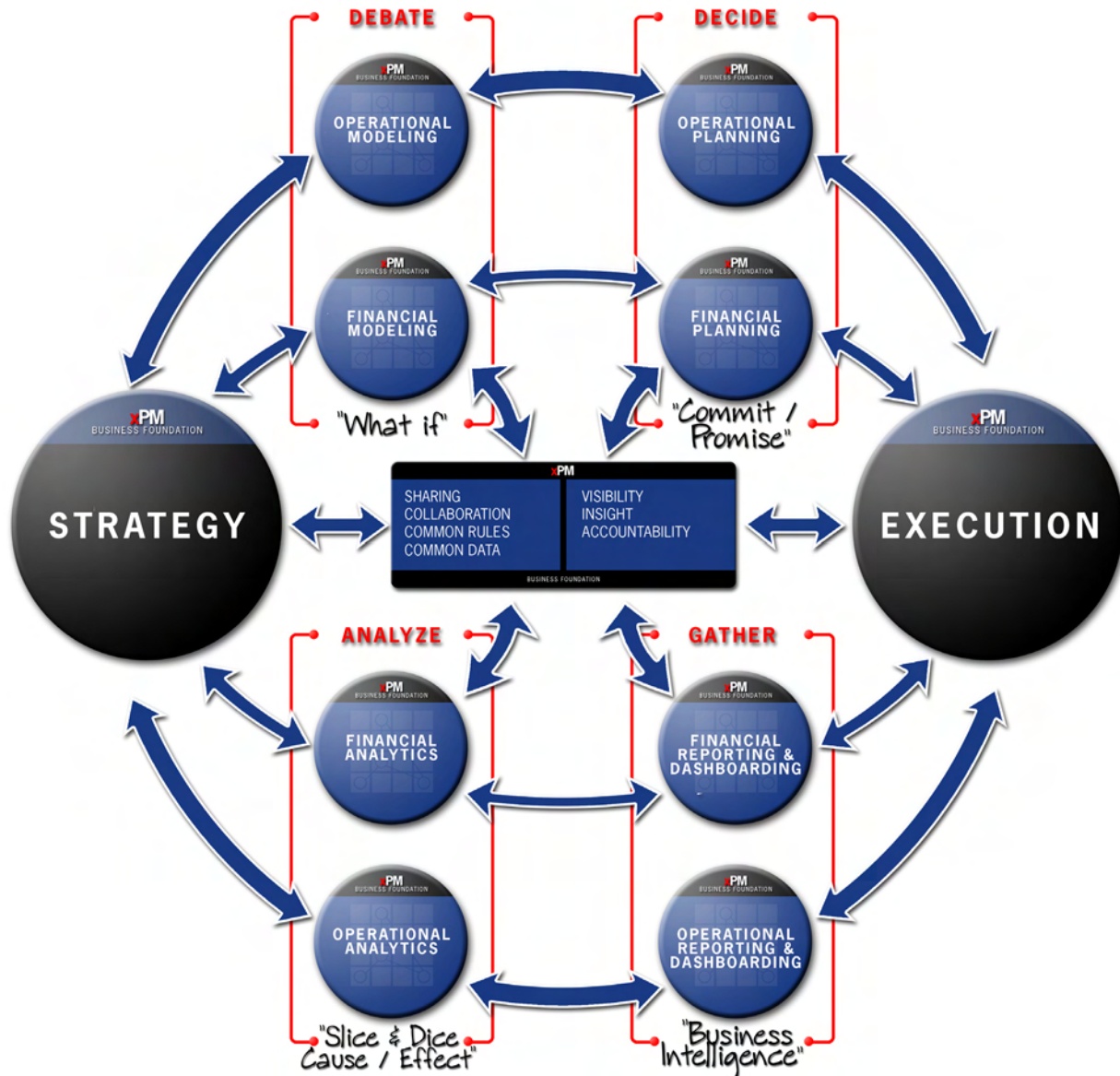
The management system should support and enable these job functions. In-line with the goal of xPM™ above, we see that system like this:



There is a cycle of processes that move an organization from strategy to execution. Setting objectives is based on the overall corporate strategy, and in turn informs how, where, and when we allocate and organize resources. Once these resources are deployed, we measure the results and communicate them to the appropriate stakeholders. By delving deeper into the results, we can make course-corrections by, among other things, optimizing resources, motivating and changing behaviors (developing and rewarding people), and validating our strategy.

## Model #2: The xPM™ Processes

In order to see the processes that govern that cycle, we have to peel back the onion a bit more. This is the xPM™ process cycle:





Model #2 focuses on the interconnections among processes – this is really the “secret” of xPM™ (BPM, EPM, CPM, etc.). To wit:

1. xPM™ takes your strategy and allows you to do the “what if” modeling and analysis required for goal and target setting: what if we leverage debt more? What if we hire 100 more sales reps? What if we acquire this adjacency? Rigorous “what-iffing” requires that assumptions for each model be tracked, shared and auditable. This process requires cause-and-effect insight into operational and financial drivers of the business as in “these 100 new reps will increase SG&A Expense by x%, with a corresponding improvement in top-line Revenue of y%, assuming sales productivity is constant,” and “yet if we also invest more in sales product training, then productivity can improve by z% - which can positively effect operating margin.” There should be a short-term and a long-term perspective in the models.
2. Once the operational and financial models are negotiated, agreed upon, and aligned with the company strategy, they should directly connect to the company planning process. And this is a two-way street: once plans are consolidated from the bottom of the business to the top, there are new insights into the business (geographic, seasonal, and product/customer drivers) that can be fed back into the operational and financial models used in the ‘what if’ part of the management system. This is the first part of the ‘learning organization:’ capturing knowledge and details about the business in order to make better predictions.
3. The planning part of the cycle includes:
  - Budgets
  - Operational Plans
  - Revenue & Expense forecasts
  - Supply forecasts
  - Workforce Plans
  - Capital Expenditure Plans
  - Marketing Plans
  - Project Plans
4. And can include top-down and/or bottom-up planning methodologies, including rolling forecasts and even prediction markets. Financial and Operational plans, budgets and forecasts are interlinked so, for example, number of units in a supply forecast flows into COGS and Inventory forecasts
5. Many organizations forecast multiple scenarios: best-case, probable (or “commit”), and worst-case – each with their own assumptions.
6. The two-way street here is necessary to accommodate changing market conditions or events in the marketplace. For example, if a new competitor opens up near a branch, a product is recalled, or if there is new price pressure, then perhaps revenue needs to be reforecast.
7. When the plans are approved, contributors have made a commitment to deliver on the plans. There are a variety of ways of monitoring the condition of the business, including:
  - Operational reporting
  - Dashboards & Scorecards
  - Financial Reporting (P&L, Balance Sheet)
  - Interactive Query & Reporting (including features like drill-down and slice-and-dice).
8. One of the first things to report is variance to plan: how are we doing against what we said that we would do? The reporting (or at least the way managers get access to data) is typically role-based: with analysts getting detailed, interactive access to a wide variety of data all the way through executive dashboards with summarized, consolidated data.
9. “Business Intelligence” is a realm of technology that includes the interface between reporting and analysis. Once you have “drilled-down” to sales on a certain product, location, or day, for example, you want to see the corresponding cause and/or effect of one piece of data on another. This area would also include Data Mining.
10. More rigorous analysis is essential for an understanding of customer, product, or geographic productivity. This phase of xPM™ includes other analytic techniques such as:
  - Trending
  - Benchmarking
  - Predictive Analytics
  - Statistical Analytics
  - Multidimensional Analytics
  - And a variety of application analytics such as variance analysis (including things like forecast accuracy).



11. Finally, the value of bringing all of these business processes together in xPM™ is what happens “in the middle.” This includes all of the phases working off of the same data, meta data, and master data. Utilizing the same rules and transformations (eg: currency conversion). And having the same definitions within a Common Business Language (ie: everyone agrees on what constitutes Gross Margin, or the definition of a Full Time Equivalent – FTE – worker).

All of these xPM™ phases are aligned with strategy. Striving to be an xPM™-enabled organization gives you line-of-sight visibility, collaboration, and a common business language. The goal is to interconnect these processes with the underlying transactional data to create a learning & continuous improvement management operating system.



In Part 2, we will continue the xPM™ ecosystem, and discuss:

- The context of xPM™ (vs. Transactional systems)
- The organizational process and points of view
- How metrics and Key Performance Indicators support xPM™
- The Extranet™ and BeyondNet™
- Value Networks, Performance Networks and the Business Foundation

For more information on **Business Foundation** or to discover more about xPM™, please visit

**[www.business-foundation.com](http://www.business-foundation.com)** or

call us **1-800-557-4945**

